

The background of the entire cover is a photograph of a Texas landscape. It features rolling hills in the distance under a dramatic, cloudy sky with warm, golden light. The foreground is filled with tall, dry grass and some green shrubs.

TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Year Ended August 31, 2003

2003

CAROLE KEETON STRAYHORN
TEXAS COMPTROLLER

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Peggy Wagman, CPA, Financial Reporting Supervisor

Vicki Garcia, CPA, Team Leader

Irene Lee, CPA, Team Leader

Terry G. Martin, Team Leader

Shelly Arnold, CPA

Precilla Hauer

Robbie Hennard

Jesse Holguin

Stephanie Holtzendorf, CPA

Angela Jenkins

Michelle Lee

Irma Rodriguez-Evans

Victor Scott

Lola Smith

Mary Ann Uranga

Tom Zapata, CPA

Mary Zerda

Other Sections:

Phillip Ashley

Gary Bryant

Cindy Haley, CPA

Bruce Holmstrom

Hank Robinson

Darrell Edge, Fund Accounting Assistant Manager

Tom Mathey, CPA, Fund Accounting Manager

Suzy Whittenton, CPA, Fiscal Management Division Assistant Director

Ken Welch, CPA, Fiscal Management Division Director

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State of Texas

Comprehensive Annual Financial Report

For the Year Ended August 31, 2003

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	3
Elected State Officials	15
Government Structure of Texas	16
Certificate of Achievement	18

FINANCIAL SECTION

Independent Auditor's Report	21
------------------------------------	----

Management's Discussion and Analysis

Management's Discussion and Analysis	25
--	----

Basic Financial Statements

Government-Wide Financial Statements	
Statement of Net Assets	38
Statement of Activities	40
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	43
Reconciliation of the Governmental Funds Balance Sheet to	
the Statement of Net Assets	45
Statement of Revenues, Expenditures, and Changes in Fund Balances	46
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,	
and Changes in Fund Balances to the Statement of Activities	47
Proprietary Fund Financial Statements	
Statement of Net Assets	48
Statement of Revenues, Expenses, and Changes in Fund Net Assets	50
Statement of Cash Flows	52
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	54
Statement of Changes in Fiduciary Net Assets	55
Notes to Financial Statements	59

Required Supplementary Information Other Than MD&A

Budgetary Comparison Schedule	114
Modified Approach to Reporting Infrastructure Assets	117

Other Supplementary Information – Combining Financial Statements

Governmental Funds

Nonmajor Governmental Funds	
Combining Balance Sheet	124
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	125
Nonmajor Special Revenue Funds	
Combining Balance Sheet	128
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	129
Budgetary Comparison Schedule	130
Nonmajor Debt Service Funds	
Combining Balance Sheet	136
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	138
Nonmajor Capital Projects Funds	
Combining Balance Sheet	142
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	144
Nonmajor Permanent Funds	
Combining Balance Sheet	148
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	149

Enterprise Funds

Colleges and Universities – Major Enterprise Fund	
Combining Statement of Net Assets	154
Combining Statement of Revenues, Expenses, and Changes in Net Assets	158
Combining Statement of Cash Flows	162
Nonmajor Enterprise Funds	
Combining Statement of Net Assets	168
Combining Statement of Revenues, Expenses, and Changes in Net Assets	172
Combining Statement of Cash Flows	174

Fiduciary Funds

Pension and Other Employee Benefit Trust Funds	
Combining Statement of Fiduciary Net Assets	182
Combining Statement of Changes in Fiduciary Net Assets	184
External Investment Trust Funds	
Combining Statement of Fiduciary Net Assets	188
Combining Statement of Changes in Fiduciary Net Assets	189
Private-Purpose Trust Funds	
Combining Statement of Fiduciary Net Assets	192
Combining Statement of Changes in Fiduciary Net Assets	193
Agency Funds	
Combining Statement of Fiduciary Net Assets	197
Combining Statement of Changes in Assets and Liabilities	198

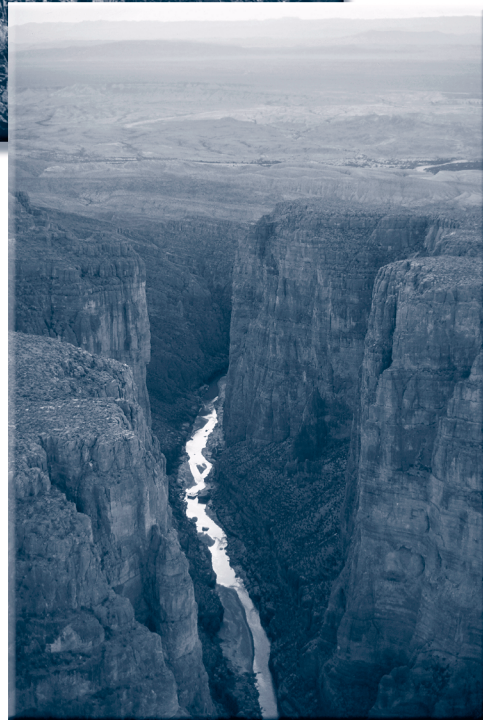
Discretely Presented Component Units

Combining Statement of Net Assets	204
Combining Statement of Activities	210

STATISTICAL SECTION

Governmental Fund Revenues by Source and Expenditures by Function	215
State Tax Collections Per Capita	216
General Bonded Debt Per Capita	216
Ratio of Annual Debt Service Requirements for General Bonded Debt to Total Governmental Fund Type Expenditures	217
Revenue Bond Coverage	218
Texas Gross State Product by Industry	219
Texas Salary Earnings by Industry	220
Total Personal Income, Population and Per Capita Income	221
Employment and Unemployment Rates	221
Residential and Nonresidential Construction	222
Market Value of Taxable Property	222
Texas Banking Activity	223
Total Retail Sales	223
Texas Public School Enrollment by Grade and Ethnic Grouping	224
Higher Education Enrollment	225
Number of Higher Education Institutions	225

Introductory Section





February 27, 2004

To the Citizens of Texas, Governor Perry,
and Members of the 78th Texas Legislature:

The Comprehensive Annual Financial Report of the State of Texas for the fiscal year ended August 31, 2003, is submitted herewith. Responsibility for both the accuracy of the data presented as well as the completeness and fairness of the presentation rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects and all disclosures necessary for a reasonable understanding of the State's financial activities have been included.

The reporting approach established by the National Council on Governmental Accounting in Statement No. 1 and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The State also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The Introductory Section provides this transmittal letter, Elected State Officials, government structure of Texas, and the GFOA Certificate of Achievement. (2) The Financial Section includes the auditor's opinion; Management's Discussion and Analysis (MD&A), which provides an introduction, and an overview and analysis of the Basic Financial Statements;

the Basic Financial Statements, which present government-wide financial statements for the primary government along with the component units of the State of Texas and fund financial statements for governmental funds, proprietary funds, and fiduciary funds, together with the Notes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and Other Supplementary Information, which includes the combining financial statements. (3) The Statistical Section provides various financial, economic, and demographic data about the State.

Reporting Entity

This report includes government-wide statements and fund financial statements of various departments, agencies, and other organizational units, which are considered part of the State of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by the GASB. The criteria include legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the Notes to the Financial Statements provides detail on the financial reporting entity. A brief summary of the

nature of significant component units and their relationship to the State of Texas is discussed in Note 19.

All activities that would generally be considered part of the State of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, and general government.

Pension and Other Employee Benefit Trust Funds

The State contributes to five pension plans: Teacher Retirement System, Employees Retirement System, two Judicial Retirement Systems, and the Law Enforcement and Custodial Officer Supplemental Retirement Fund. The State also administers, but has not been required to contribute to, the Fire Fighters' Relief and Retirement Fund. The Other Employee Benefit Trust Funds include the Deferred Compensation Trust Fund, the State Employee Cafeteria Plan Trust Fund, and the TexaSaver Administrative Trust Fund that are administered by the Employees Retirement System.

Economic Outlook

After losing jobs in 2002 for the first time in fifteen years, Texas was back on the growth track in 2003. The state added 39,600 jobs from November 2002 through November 2003, but this number paled in comparison to average annual growth levels of 214,000 over the period from 1987 through 2001. The 2003 job recovery did not take hold until the second half of the year, with Texas non-farm employment advancing over 50,000 jobs from July through November. Manufacturing was clearly hit hardest among industries, losing 30,800 jobs statewide over the past year, but these losses were more than counterbalanced by additions in two other industries. That is, education and health services added 35,000 jobs, while federal, state, and local government—including schools—added 30,700.

Once again, Texas fared better economically than most of the nation in 2003. Texas continued to be buffeted during the year by a U.S. economy that has been losing jobs since 2001 and has only begun to generate some job growth

during the last one-third of 2003. Overall, U.S. employment fell -0.2 percent from November 2002 to November 2003, while the Texas job count inched up by 0.4 percent. Although the state's job growth during 2003 was anemic compared to that of recent decades, Texas added more jobs than all but two states and exceeded two-thirds of the states in the rate of employment growth over the past year.

Leading Indicators Pointing Upward Again

The Comptroller's Leading Economic Indicators Index improved during the second half of calendar year 2003. The index is designed to forecast the state's employment growth four to six months in advance. The index has mostly moved downward or laterally since 2000, but found some renewed vigor in 2003, indicating that long-awaited economic growth has begun.

Also after declining through most of three years, consumer confidence in the West South Central States has again achieved a measure of stability. It still bounces in reaction to the most recent political, economic, or business news, but consumers' assessment of present and future economic conditions did improve slightly in 2003. Through much of the year, consumer spending remained fairly strong in Texas, even with new motor vehicle revenues dropping after three years of robust growth. Consumers and businesses did not break down the doors in 2003, but non-auto sales activity, based on sales tax collections, did squeeze out 0.4 percent growth in 2003. Particularly positive was residential construction, which took advantage of low mortgage rates to grow by 9.6 percent in 2003, on the heels of an equally strong boost in 2002.

The biggest economic problems during the year were a weak manufacturing sector, a still tepid level of business investment, and a weak global economy. These problems contributed to Texas' highest average unemployment rate in ten years, although declines in recent months indicate that it has peaked and is improving now. The business investment downturn badly hurt the state's once-booming industry producing computers, electronic components, telecommunications, and other high tech products, but renewed investment emerging in 2003 gave signs of a recovery here too. Personal consumption spending, federal

defense expenditures, and nonresidential construction all rose in Texas in 2003.

During the first ten months of 2003, Texas averaged 8,204 incorporations per month, for its highest level since the Comptroller's office has tracked this indicator. New business incorporations do not necessarily predict a strong economy, as the number says nothing about the economic viability of newly incorporated businesses. (A layoff may inspire someone to incorporate a business, or incorporations may follow the failure of an owner's previous business.) Still, the ongoing entrepreneurial spirit of Texans is reflected in the unusually large number of Texans taking on the challenges of a new business.

At the close of calendar 2003, eight of the state's ten leading economic indicators were pointing toward a stronger upcoming state economy. Positive signs included retail sales growth, rises in stock values and oil prices, a growth in housing permits and new business incorporations, fewer initial claims for unemployment compensation, rising consumer confidence, and a rising national index of leading economic indicators. The only two indicators pointing to slower economic growth were a smaller number of help-wanted ads and a shorter average manufacturing work-week than in the previous year.

Unemployment Has Topped Out

The Texas unemployment rate improved for about eight years before rising steeply in 2001 and 2002. Texas' unemployment had fallen from 7.7 percent in 1992 to a monthly low of 3.9 percent in December 2000. As terrorist attacks trampled an already weakened economy, the unemployment rate soared to a peak of 6.8 percent in May 2003 and to a ten-year annual average high of 6.6 percent. Since the summer, however, the percentage of unemployed Texas workers has inched back downward (to 6.3 percent by November). In the early stages of renewed growth, the unemployment rate usually is slow to improve, since employers generally require evidence of a stronger cash flow before they begin renewed hiring.

Recent improvement in the unemployment rate is another heartening hint that a new bout of economic growth has taken hold in Texas.

Outlook for 2004 and 2005

The Texas economy is on track to improve over the next two years. Nationally, increases in output have been boosted by productivity increases not seen in a generation, so one of the slowest economic revivals in over fifty years has finally shown signs of taking hold. Still, boom times are not likely to be around the corner. Texas' economic growth is forecasted to be healthy over the next two years, but the economy is far from overheating. Underlying renewed growth in Texas are an improving national economy, a hefty rise in buying intentions registered by a survey of purchasing executives, a strong uptick of investment (as high tech purchases made in 1999 are being replaced), a boost in export trade resulting from declines in the dollar's value, continued low inflation, and little pressure—for now—to ratchet up mortgage and interest rates.

The Comptroller's forecast model predicts that Texas' real gross state product will expand by 4.2 percent annually in both 2004 and 2005. This will match forecasted U.S. growth in 2004 and outstrip it as national economic growth matures. With Texas' relatively low costs, a location at the buckle of the nation's fastest growing southern and western regions, and sustained migration into the state, the state's gross product growth is forecast to outperform the U.S. by nearly a percentage point in 2005.

An Overview of Texas Industries by North American Industry Classification System Sector

Last year, we reported that six out of eight of the state's major Standard Industrial Classification (SIC) sectors lost jobs, with only services and government showing year-over-year employment increases. This year, mostly due to increases in the last half of 2003, five of the state's ten¹ North American Industry Classification System (NAICS)² based industrial sectors closed the year with more jobs than

¹ The Comptroller's office combines two NAICS sectors, Leisure and Hospitality and other Services, to form a single industry.

² This year, we are replacing the SIC industry classifications with sectors based on the NAICS. NAICS is the standard now used by the federal government to classify industries

a year earlier, and five lost jobs. Only three sectors (natural resources and mining, trade/transportation/utilities, and most particularly, manufacturing) saw employment losses greater than 1 percent during 2003. The five industries that grew added a total of 96,100 jobs, while the five that lost gave up 56,500 jobs, for a net increase in Texas nonfarm employment of 39,600 over the past year.

Oil and Gas Sees an Unusually Stable Year

The most remarkable aspect of the state's oil and gas industry in 2003 was that it was unusually stable, without the tumultuous cycles that typify its history. Oil and gas prices started 2003 at a relatively high and rising level, and even though they settled back a bit, prices mostly remained between \$25 and \$35 per barrel. Natural gas prices, too, were more stable in 2003 than has been typical in recent years.

Employment in the industry, likewise, was buffeted less than usual. The Natural Resources and Mining industry typically sees annual swings of 10,000 jobs—and sometimes more than 20,000. In 2003, however, the seasonally adjusted employment in the sector cycled within 1,600 jobs of 142,000 throughout the year. War and tensions in Iraq did little to change oil or gas prices, while weather and political upheavals that affect energy prices were comparatively tame. As prices remained firm and fairly stable, exploration within the state received a boost, rising from an average of 370 operating rigs at the beginning of the year to 477 in December. Employment in the industry dropped 1.9 percent over the past twelve months.

A Return to Job Growth in Construction

On a year-to-year basis, Texas construction employment was up every month in 2003, a welcome change after being down every month in 2002. Anyone observing the strong and persistent growth of Texas housing construction in 2003 would never guess that the state's wage and salary growth did not keep up with inflation and population growth during the year. Taking advantage of the lowest mortgage rates since the early 1960s, consumers pushed up the number of housing permits in the state by

9.6 percent in 2003, to an annual average level of 164,284 permits. Even though nonresidential construction did not keep up the pace, the residential housing market was more than enough to bolster growth in Texas' construction workforce, which grew from 571,000 at the end of 2002 to 584,000 at the end of 2003.

Nonbuilding construction, such as highway, road and bridge construction, also generated some new construction employment during 2003, adding 1,900 jobs (up 6.5 percent), for the fastest growing employment subsector of Texas construction. Nonresidential construction experienced a modest recovery in 2003, but the relative paucity of business investment for office and warehouse building preempted the growth rates that generally follow a period of retrenchment. In 2002, weakness in these sectors had been responsible for the first drop in statewide total construction employment in ten years. The square footage of Texas commercial construction had reached a fifteen-year peak, but high vacancy rates in office, retail and other commercial buildings caused it to fall in 2001 and drop precipitously in 2002. Statewide nonresidential construction activity rose again in 2003, but is far from recovering the losses it endured in 2001 and 2002.

The level and direction of mortgage rates is at the heart of the outlook for residential construction, and mortgage rates are forecast to rise in 2004. The rise is expected to be small near the end of the year, but the soaring growth rates in residential construction are likely to be clipped in 2004. The outlook for construction employment over the next two years remains fairly healthy, but growth, if any, is expected to be subdued.

The year 2003 turned around four years in which the rate of construction growth slowed in Texas. The level of increase in Texas construction employment dropped from nearly 8 percent in calendar 1998, to 6.5 percent in 1999, to 5.5 percent in 2000, and to 2.4 percent in 2001, followed by a decline of -1.8 percent in 2002. For 2003, Texas' construction employment was the only goods-producing industry to add jobs. It increased by 1.5 percent, to nearly 584,000 employees in November 2003.

Manufacturing Accounts for Most of Jobs Lost in Texas

Of the industries that lost jobs in Texas in 2003, more than half of these (30,800) were in manufacturing. Statewide, manufacturing employment fell by 3.3 percent from November 2002 to November 2003, with more than one-third of the manufacturing losses concentrated in computers and electronics, including semiconductors and communications equipment. Nationally, factory employment has declined for 41 consecutive months, for a streak with no historical parallel, and Texas has shared in the shrinkage. Although manufacturing production has been held up by strong productivity growth per worker, manufacturing employment statewide in 2003 dropped to 903,900 in November 2003, to its lowest statewide total since 1977.

Computer and electronics manufacturing has lost jobs every month since January 2001, hemorrhaging a statewide cut of 58,400 jobs, or more than one-third of total industry employment at the beginning of 2001. The outlook for the future is tied to whether businesses bolster the industry with a stronger level of investment. Pent-up demand, depleted inventories, and the already-noted aging of computer equipment bought in anticipation of “Y2K” are now fueling a resurgence in computer and electronic demand.

Apparel manufacturing accounted for the second largest loss of jobs statewide over the past twelve months. Major apparel manufacturers, such as Levi Strauss, have been shuttering their domestic operations and shedding employees since 1994, which was the last year that apparel employment increased in Texas. The Texas industry, with 15,000 employees statewide, is only a shadow of its 1994 self, when its employment peaked at over 78,000. During 2003, the number of apparel jobs declined by another 4,400, or 22.7 percent. This was, by far, the highest percentage loss of jobs for any Texas industry in 2003.

The fabricated metals industry also suffered in 2003, partly because of a comparative dearth of nonresidential construction and the resulting lack of demand for architectural and structural metals. Investment appears to be picking up, but a concomitant rise in mortgage rates could

counterbalance this and darken the otherwise improving outlook for new building construction.

A few manufacturing segments bucked the trend and added jobs in 2003. Electrical equipment and appliance manufacturing added 3.2 percent employment, although its total employment of 19,400 makes it a fairly small subsector. Likewise, the larger aerospace manufacturing industry also had job growth of 3.2 percent (1,300 jobs) statewide in 2003. The fastest growing manufacturing sector in the state was household and institutional furniture, growing from 21,000 to 21,900 employees, for a 4.3 percent rate of increase.

The outlook for manufacturing employment in Texas and the nation remains weak, although impressive productivity increases have kept, and will keep, Texas manufactured production growing statewide. As in the past, the outlook for manufacturing varies by sector, depending on the product being produced. On the positive side, exporters should receive a boost, as the dollar fell in 2003. During the year, the dollar dropped 16 percent against the Euro and 10 percent against the Japanese yen. Also, the Institute for Supply Management’s purchasing managers’ index offers a positive sign for manufacturers. The index, which tracks the purchase intentions of businesses, rose to 62.8 in November 2003, for its highest level since 1983.

Trade, Transportation, and Utilities Affected by the Weaker Economy

It was a lackluster year for wholesale and retail trade. This large segment of the economy added 600 jobs, which was only a tiny fraction of the more than 1.6 million Texans who work in wholesale and retail trade. Still, this subsector was fortunate in comparison to Transportation, Warehousing, and Utilities (the sibling economic sector with which trade is combined under NAICS). Transportation, warehousing, and utilities, had its worst year in twenty years in 2003, losing another 3.3 percent of its workforce. Nearly half of the 12,900 lost jobs were in air transportation. Combined, trade, transportation, and utilities lost 12,300 jobs in 2003, or -0.6 percent.

One factor, which helped buoy the weak U.S. economy in the early stages of the 2001 and 2002 downturn, was that consumers continued to spend. Faced with growing debts and a lack of wage growth to sustain the levels of spending, consumers have let up somewhat, particularly in new vehicle purchases. State sales tax collections, of which more than 50 percent come from households, increased by a modest 0.4 percent in calendar year 2003, but new vehicle sales tax fell by more than 5.0 percent. Texas department stores recorded a loss of 9,300 jobs in 2003, or 8.2 percent. Much of this loss was counterbalanced by a gain of 7,100 jobs in general merchandise stores, such as warehouse and specialty retailers, that are carving out an ever-larger share of the retail market. With a bustling residential home market, retailers of building materials and garden equipment saw an increase of 2,300 jobs, or 2.8 percent during the year.

The air transportation industry continues to suffer from structural problems, perennial terrorism threats, and lagging growth in national and international economies. Passenger enplanements nationwide during the first eleven months of 2003 were down 2.6 percent from the same eleven months of 2002, and the number of departures was down 7.3 percent. Revenues from air cargo declined 0.7 percent. As a result of cost cutting measures and lukewarm passenger demand, air transportation lost 6,000 jobs in Texas in 2003, or a sizable 8.4 percent of its workforce. Although not hurt to the same degree, other transportation segments were not immune to the weakened demand for transportation services. Trucking lost 1,000 jobs, rail lost 200, and employment related to pipelines fell by 300 positions in Texas.

Utilities, both electric and natural gas, lost jobs during the year. Compared to 2002, the year was better for natural gas, but worse for electric utilities, which had eked out again in 2002 but lost 1.6 percent of its jobs in 2003.

Information Industry Debuts on a Low Note

An industry now being separated out under the new NAICS industrial categories is information. Information has grown and changed so much over time that it will now be analyzed and forecasted as a separate industry. But it

may not have been the best time for introductions, since information lost a larger percentage of its workforce than any other Texas industry in 2003, although it did not lose as many jobs as the larger manufacturing sector. Ninety percent of the jobs lost in the information industry were in telecommunications, where local, long distance, and wireless telephone communications have been suffering from falling revenues. Bandwidth contract prices slumped in the face of severe competition and resulting price wars in 2002 and 2003, and the inability to meet profit expectations has caused communications providers to cut jobs.

The publishing industry has suffered as well, as the pervasiveness of electronic communications has caused a loss of jobs among publishers, including newspapers. Texas publishers trimmed a net 1,400 jobs, or 2.7 percent, during the year. Although electronic communications have hurt publishers, the lost jobs did not go to Internet service providers, which also lost 500 jobs (-1.3 percent). The one segment of the information industry that had a positive year economically was radio and television broadcasting, which statewide gained 800 jobs (up 4.6 percent).

Overall employment in the information industry dropped by 4.5 percent from November 2002 to November 2003, as 10,900 jobs were cut from an employment pool of 242,300 workers.

Financial Activities Growing Again

From 1995 to 2001, financial activities added nearly 100,000 jobs in Texas, before facing a down year in 2002, when the industry lost 3,100 jobs. Credit providers and securities and commodities dealers enjoyed substantial growth in 2003, as did most banking institutions.

Reflecting the strong recovery of securities markets, one of the healthier economic sectors in the state during 2003 was financial investment. From November 2002 to November 2003, security and commodity dealers added 1,100 jobs statewide (up 2.8 percent), while credit intermediation services added 3,200 (up 4.7 percent). Texas-headquartered banks had a relatively healthy year, with a 5.3 percent increase in both assets and deposits during the first three quarters, as well as mild growth in both loans and equity capital.

Insurance and real estate in the state had a mostly mixed year, with a small loss of jobs among insurance carriers, a gain in peripheral insurance activities, and a slight loss of jobs in real estate and rental and leasing.

Overall, financial activities added 5,400 jobs, but this was only 0.9 percent growth for the year. Still, it was a welcome turnaround from the losses in 2002. Continued low interest rates and favorable interest rate spreads bode well for the near term of finance in Texas.

Professional and Business Services – It Depends on the Type of Business

Observing the professional and business services industry in Texas, with almost an equal number of jobs lost and gained, it appears that there is no story to tell.

However, within professional and business services are some of the strongest—and the weakest—links in the state’s economic chain. Waste management and remediation services added 6.5 percent employment growth, while businesses involved in computer systems design and related business services lost 8.0 percent of their workers. Because manufacturing suffered, support services for manufacturing, such as accounting, bookkeeping, payroll, and tax preparation also had a difficult year, losing 4.7 percent of their jobs.

Administrative and support services expanded, as did legal services. Before hiring full-time employees, many businesses opt for bringing in part-time workers until it is clear that business activity will support full-time positions. In this interim period, employment services (such as temporary help agencies) and business support services showed employment increases of 2.8 percent and 2.5 percent respectively, well above the state’s overall nonfarm employment growth rate of 0.4 percent over the past year. Growth in part-time employment is a precursor of increased full-time hiring in the near future, if consumer and business demand does not stumble.

Educational and Health Services is the State’s Fastest Growing Industry

The economy reflected the demographics of the state in 2003. The elderly population is one of the fastest grow-

ing segments of the state, with the population of Texans aged 65 and older growing about 3.3 percent per year, and this is the population subgroup that draws most heavily on health services. On the other end of the age spectrum, the state’s high fertility rate requires comparatively more education services. Consequently, it is no surprise that Educational and Health Services has been the fastest growing Texas industry over the past twelve months. The industry added 35,000 jobs (3.2 percent) and accounted for nearly all the net growth in nonfarm employment in Texas between November 2002 and November 2003.

The fastest-growing individual subsector of the state economy over the past year has been home health care services, which added 14,100 jobs, for a 9.8 percent increase. Employment in physician’s offices added 5,100 jobs (3.6 percent). Hospitals added 6,700 (2.7 percent), while social assistance services, including day care for children, added 5,700 (3.5 percent). Educational services, including private schools and colleges, saw their labor pool increase by 2,900 jobs, or 2.1 percent. Every subsector of educational and health services added jobs from November 2002 to November 2003.

Leisure, Hospitality, and Other Services Hurt by Slow Income Growth

Real per capita wage growth on a year-to-year basis fell in Texas over the past year, and sectors such as Leisure and Hospitality Services depend on consumers having disposable personal income. The industry actually added some jobs (up 6,600, or 0.8 percent), but was well below its booming growth rates of the past decade.

The Leisure, Hospitality, and Other Services industry would have lost jobs had it not been for moderate growth among restaurants and drinking places, which added 9,200 positions (up 1.4 percent) over the past year. Amusement and recreation industries, such as movies and theater, were victims of relatively low wage growth and lost 3.4 percent of their employment (down 2,200 jobs). Repair and maintenance services were mostly flat, while religious, civic, and professional organizations added jobs. Personal services and laundry services, again suffering from a lack of growth in real disposable income, lost jobs.

Most Government Employment Growth is in the Schools

Government added 31,000 jobs between November 2002 and November 2003, with 87 percent of these (26,900) in local government, and about two-thirds of the local government jobs (17,200) in school districts and public educational services. This is a pattern that has been ongoing for many years, during which federal and state government has grown much more slowly than the local segment, if federal and state grew at all. Even with the war in Iraq, civilian federal government employment in Texas dropped by 1.1 percent over the past year, mostly owing to staff reductions in the U.S. Postal Service. State government grew by 1.7 percent, but once again, the driving force was education. Of the 6,000 jobs added in state government over the past year, 4,900 were in state colleges, universities, and state educational services

Major Initiatives

Health and Human Services Reorganization

The 2003 Legislature adopted H.B. 2292, which mandates significant changes in the management of the state's health and human services agencies. Twelve independent agencies are being consolidated into a single health and human services enterprise composed of the Health and Human Services Commission (HHSC) and four new departments. HHSC's Executive Commissioner, appointed by the Governor, will oversee the entire health and human services system. A commissioner who will be appointed by the Executive Commissioner will supervise each department.

Ten of the twelve agencies were abolished and their powers and duties transferred to three new departments: The Department of Assistive and Rehabilitative Services, the Department of Aging and Disability Services, and the Department of State Health Services. One agency, the Department of Protective and Regulatory Services was renamed and became the Department of Family and Protective Services. The Health and Human Services Commission retained its name and was given responsibility to centrally

provide administrative services to all four departments and to integrate eligibility determination for programs.

The Department of Family and Protective Services and the Department of Assistive and Rehabilitative Services began consolidated operations in January 2004. The remaining agency consolidations are scheduled to be completed by the end of summer 2004. Consolidation of administrative services and eligibility determination integration are expected to be complete by June 2004.

Employee Retirement Incentive

The 2003 Legislature adopted a retirement incentive for state employees in an effort to reduce state government salary costs. Many other states and private companies have used similar incentives to encourage employees who are eligible to retire to do so. The incentive offered in Texas is a one-time lump-sum payment equal to 25 percent of the employee's salary. Those employees, who were eligible to retire on August 31, 2003, were required to retire on that date in order to receive the incentive payment. Those employees who become eligible to retire during the FY2004-2005 biennium need to retire in the month in which they become eligible in order to receive the incentive payment. To ensure that the state realizes savings from the retirement incentive program, agency appropriations are reduced by 35 percent of the salaries of those retiring. The incentive bonus payments are paid from these savings.

At the time the incentive was adopted, estimated savings were based on the anticipated retirement of 25 percent of those who were eligible. This assumption represents a 5 percent increase in retirements due to the incentive since typically about 20 percent of those eligible to retire do so at the time they become eligible. Initial savings estimates indicate that more employees than anticipated are taking advantage of the retirement incentive in the first few months of the program, which would produce greater savings for the state.

Multi-State Lottery

In January 2003, the Comptroller's *e-Texas* report recommended that Texas join a multi-state lottery to increase lottery sales in order to raise the amount of revenue directed by state law to Texas public schools. The following October, after authorization by the Legislature, the Lottery Commission announced that it had reached an agreement for Texas to become the eleventh state to join Mega Millions. Ticket sales in Texas for Mega Millions drawings began on December 3, 2003.

Multi-state lotteries have proven to increase lottery sales in individual states due to enormous jackpots that are more enticing to players than the smaller jackpots that are produced by single state games. By joining a multi-state lottery, Texas should increase overall revenues and reverse declining revenue trends the state has been experiencing as Texans increasingly play multi-state lotteries offered in New Mexico and Louisiana.

New Technology Improves Tax Administration

The Texas Association of State Systems for Computing and Communications (TASSCC) awarded the Comptroller's office Enforcement Division its 2003 Excellence Award for using innovative wireless technology to automate and enhance enforcement activities. The new technology gives the Comptroller's office enforcement field collectors the ability to remotely access taxpayer information, document collection activity, and to print vital tax information using a wireless tablet computer and bubble-jet printer. As a result, field staff can increase their productivity to provide more timely taxpayer service and to collect delinquent tax revenue. The new technology was implemented on April 1, 2003.

Texas Fiscal Officers' Academy

The Texas Fiscal Officers' Academy (TFOA) is the product of a multi-agency initiative designed to prepare Texas state government's future chief fiscal officers. The Office of the Governor, the Legislative Budget Board, the Texas Comptroller of Public Accounts, the State

Auditor's Office and the Employees Retirement System first joined together in 2001-02 to offer state agencies this new training opportunity. In 2003, the TFOA received an award from the National Association of State Comptrollers (NASC) as an Outstanding Project in State Financial Management.

The academy is designed to prepare state financial professionals to assume the role and responsibilities of an agency's chief fiscal officer. Current chief fiscal officers from a number of agencies—large and small—have helped develop the program and have devised a challenging, real-life curriculum. The curriculum for the upcoming class will be taught one week per month for three months in spring 2004. Each week will focus on a different topic, such as the budget process, fiscal management, and accounting, reporting and auditing.

TexasOnline

The TexasOnline portal began through a public-private partnership as a pilot Internet Web site launched in September 2000. Merged in January 2002 with the State of Texas Web site, Texas Online offers citizens and businesses a single point of access to state and local governments in the state.

As of December 31, 2003, TexasOnline provided 195 interactive electronic services of which 13 are free public service functions. These services include occupational and professional license renewals, driver license renewals, and property and sales tax payments. TexasOnline anticipates bringing the total number of services offered to 600 in 2004 with rollout of E-Filing for Courts statewide, an Environment and Natural Resources Portal, individual driver records online and original occupational licensing.

TexasOnline averaged 13 service rollouts per month in 2003, including the Department of Public Safety (DPS) Image Retrieval service that allows law enforcement officers to verify driver license photographs with computers in patrol cars and an initial E-filing pilot for courts in selected counties. TexasOnline rolled out additional occupational licensing services, a Veterans Portal, processing of electronic franchise tax payments, and payment of

Texas A&M regular and continuing education registration, tuition and fees.

TexasOnline remains the single portal in the U.S. serving both state and local governments. Since going live in December 2000, TexasOnline processed over 20 million electronic payment transactions and by December 24, 2003, collected almost \$832 million. The site handled more than 1 million visits per month in fiscal year 2003.

At the forefront of electronic state government, Texas Online continued to garner national recognition in 2003. The portal won the 2003 Texas Association of Municipal Information (TAMI) Officers Award, received the Computerworld Honors Program award for overall excellence, the 2003 Award for Outstanding Intergovernmental Solutions from the Federation of Government Information Processing Councils and placed fifth in the Center for Digital Government's "Best of the Web" contest. The "2003 State and Federal E-Government in the United States" study, from Brown University's Center for Public Policy, ranked TexasOnline second in overall e-government performance. The website address is <<http://www.texasonline.com/>>.

Home Equity Lines of Credit

The 2003 Legislature approved a constitutional amendment, which was approved by voters on September 13, 2003, allowing home equity lines of credit (HELOCs) for Texans. Previously, Texans changed the Texas Constitution in 1997 to allow homeowners to obtain fixed-term home equity loans for purposes other than home improvements. In 1998, home equity and reverse mortgage loans became available in Texas with restrictions for homesteads larger than one acre. Now, Texans may enjoy more flexible borrowing and repayment schedules using HELOCs.

Generally, HELOCs allow a consumer to withdraw money as needed with loan payoff coming at the time the principal is actually paid. In some states, a HELOC becomes a revolving account that allows periodic borrowing, at the discretion of the account holder, up to a pre-set credit limit. But in Texas, draws from a HELOC loan must be made in multiples of \$4,000. Consumer indebtedness for HELOCs must not exceed 50 percent of the home's

value and the indebtedness for home equity loans of all types cannot go above 80 percent of the property's fair market value.

Texas consumers find HELOCs attractive for several reasons. At relatively low interest rates, Texans can borrow against the equity in their homes to consolidate high interest credit card debts, pay for emergencies and fund home improvement projects. In August 2003, the average interest rate on credit card debt was 13.8 percent while the average rate on home equity lines of credit was 4.4 percent with introductory rates as low as 1.99 percent. Secured by the home, the interest paid on the home equity line of credit is tax-deductible. This gives Texans economic value in the form of lower federal income tax bills.

Accounting System and Budgetary Controls

The Management's Discussion and Analysis (MD&A), in the financial section, provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the State's major funds: the General Fund, State Highway Fund, Permanent School Fund, Colleges & Universities, Texas Water Development Board Funds, Veterans Land Board Loan Program Funds, and the Texas Department of Transportation Turnpike Authority. The fiduciary activities are excluded from the MD&A.

The State's financial statements for governmental funds, including general, special revenue, debt service, capital projects, and permanent funds, have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The government-wide statements (Statement of Net Assets and Statement of Activities), Proprietary (including Colleges and Universities), Pension and Other Employee Benefit Trust, External Investment Trust, Private-Purpose Trust, and Agency Funds are accounted for on the accrual basis.

A summary of the State's significant accounting policies and other necessary disclosures are included in the notes to the financial statements.

The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections, and the signing of the bill by the Governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in Note 1.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

Risk Management

The State assumes substantially all risks associated with:

- Claims of state employees for unemployment compensation.
- Claims of state employees covered by the state self-insured health care plan, Health Select.
- Claims of covered employees for workers' compensation benefits.
- General tort claims that parties may file against the State or its officials, employees, or appointees.
- Liability claims against the State or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

Independent Audit

The State Auditor has performed an audit in accordance with generally accepted auditing standards of the State's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The State Auditor has contracted with KPMG to perform federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. KPMG's report, Federal Portion of Statewide Single Audit Report, for the year ended August 31, 2003, will be issued separately.

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Texas for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2002. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Texas has received a Certificate of Achievement for the last 13 years (fiscal years ended August 1990 through 2002). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and are submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout the State, including the dedicated management and staff of my Financial Reporting Section; the chief financial officers, chief accountants, and their staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will result in Texas being a national leader in quality for financial reporting.

Sincerely,



Carole Keeton Strayhorn
Texas Comptroller



State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Carole Keeton Strayhorn
State Comptroller

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Susan Combs
Commissioner of Agriculture

Victor G. Carrillo
Charles R. Matthews
Michael L. Williams
Railroad Commissioners

Legislative

Lieutenant Governor, David Dewhurst, presides over the Senate

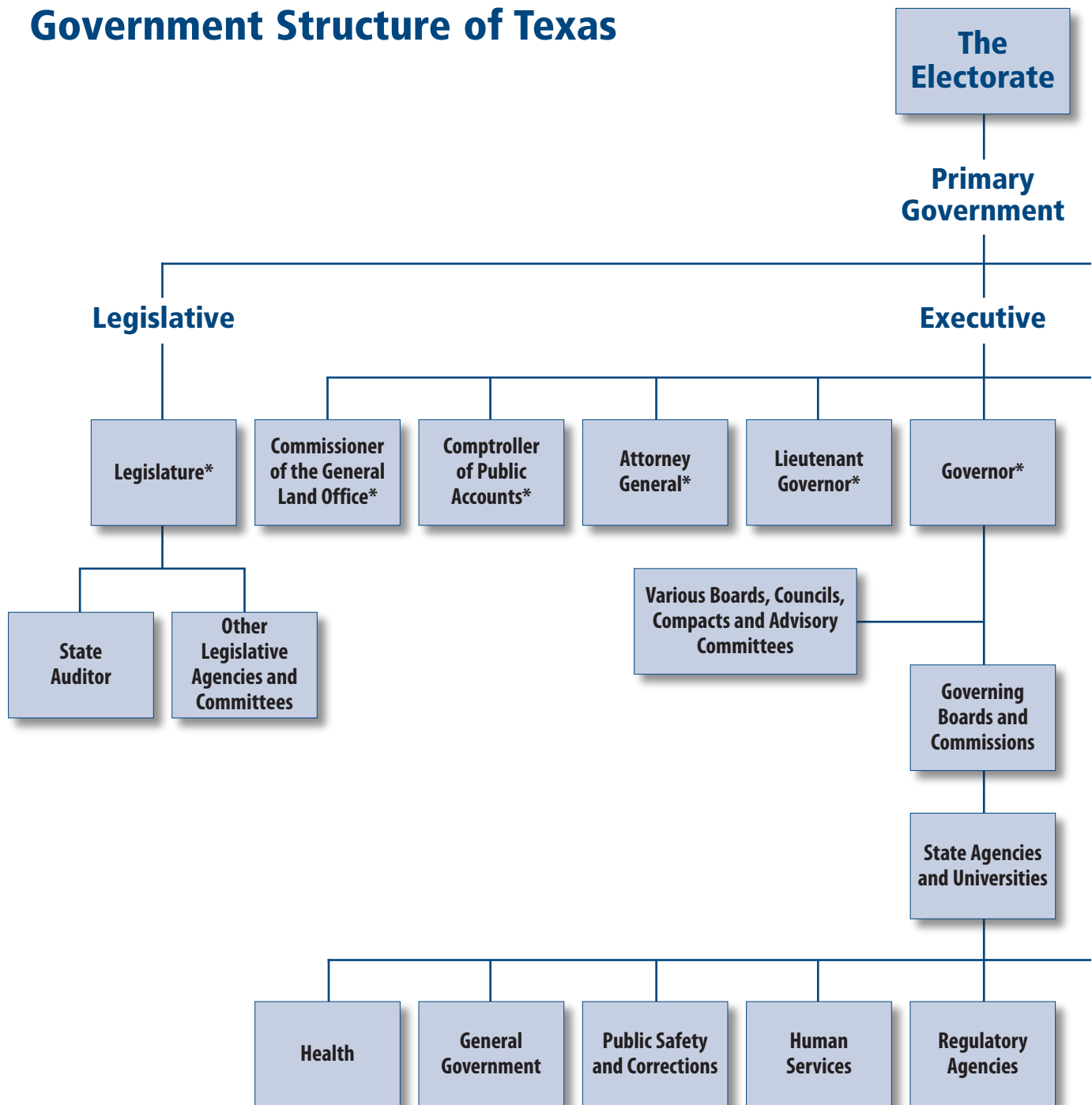
Tom Craddick
Speaker of the House of Representatives

Judicial

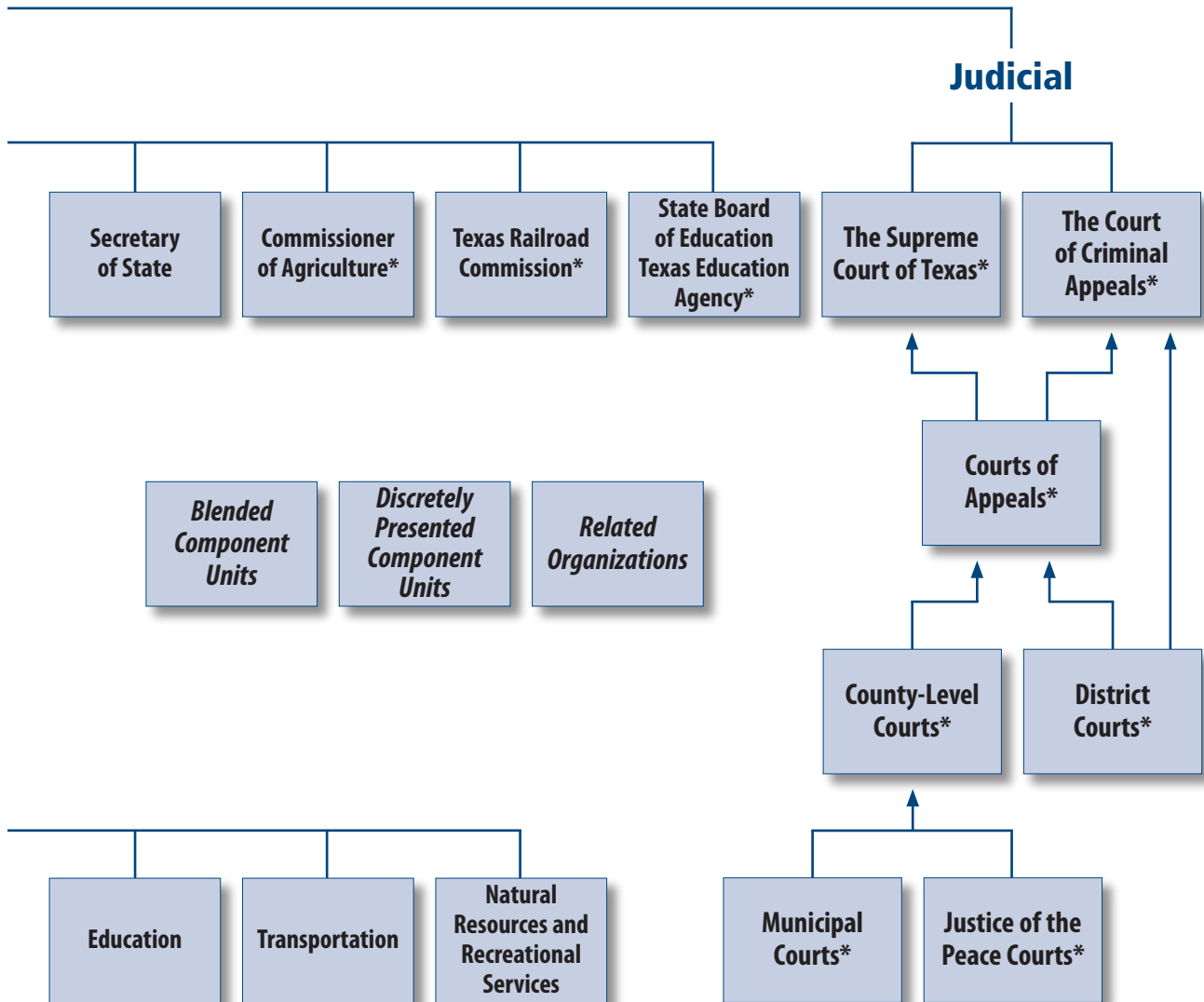
Thomas R. Phillips
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Financial Section



INDEPENDENT AUDITOR'S REPORT

February 23, 2004

The Honorable Rick Perry, Governor
The Honorable Carole Keeton Strayhorn, Comptroller of
Public Accounts
and
Members of the Legislature, State of Texas

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas as of and for the year ended August 31, 2003, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas Investment Management Company (UTIMCO) and the University of Texas M.D. Anderson Cancer Center (UTMDACC), which constitute 48 and 9 percent, respectively, of the assets of Colleges and Universities, a major enterprise fund. UTIMCO and UTMDACC also constitute 33 and 6 percent, respectively, of the assets of the business-type activities.
- The Department of Transportation Turnpike Authority (Authority), a major enterprise fund, which constitutes 5 percent of the assets of the business-type activities.
- The Employees Retirement System of Texas and the Texas Local Government Investment Pool (TexPool), which constitute 17 and 9 percent respectively, of the assets of the remaining fund information. Remaining fund information includes the nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of UTIMCO, UTMDACC, the Authority, and TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

SAO No. 04-314

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas as of August 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule, and the modified approach to reporting infrastructure assets are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures on this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Lawrence F. Alwin, CPA
State Auditor

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Management's Discussion and Analysis



Management's Discussion and Analysis

The following is a discussion and analysis of the State of Texas' financial performance, providing an overview of the state's financial position and activities as of and for the fiscal year ended August 31, 2003. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2003 report.

Highlights Government-wide

Net Assets

The assets of the State of Texas exceeded its liabilities by \$97.1 billion as of August 31, 2003, an increase of \$2.3 billion, or 2 percent, from fiscal year 2002.

Fund Level

Governmental Funds

As of August 31, 2003, the state's governmental funds reported a combined ending fund balance of \$20.9 billion, a decrease of \$1.4 billion, or 6 percent, from fiscal year 2002. The state reported a negative unreserved fund balance of \$598 million in fiscal year 2003.

Proprietary Funds

The proprietary funds reported net assets of \$27.1 billion as of August 31, 2003, an increase of \$1.7 billion, or 7 percent, from fiscal year 2002.

Long-Term Debt

The state's total bonds outstanding increased by \$975 million, or 6 percent during fiscal year 2003. This amount represents the net difference between net issuances, payments, and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling \$3 billion. More detailed information regarding the government-wide, fund level, and long-term debt activities can be found in the Debt

Administration section of this Management's Discussion and Analysis (MD&A).

Overview of the Financial Statements

The reporting focus of this report is on the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial activities and position in four parts—(1) MD&A (this part), (2) the Basic Financial Statements, (3) Required Supplementary Information other than MD&A, and (4) Other Supplementary Information presenting combining statements. The report also includes statistical and economic data.

The Basic Financial Statements include Government-Wide Financial Statements, Fund Financial Statements, and notes that provide more detailed information to supplement the Basic Financial Statements.



Reporting on the State as a Whole

The Government-Wide Financial Statements are designed to present an overall picture of the financial position of the state. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The Statement of Net Assets combines and consolidates the government's current financial resources with capital

assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets, which are the difference between the state's assets and liabilities, represent one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The Statement of Activities focuses on both the gross and net cost of various activities (governmental, business-type, and component unit); these costs are paid by the government's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The Statement of Net Assets and the Statement of Activities divide the state's activities into three types.

Governmental Activities

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreational services, and regulation. Taxes, fees, and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable, or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These entities are reported in a separate column in the Government-Wide Statements. The state includes 18 separate legal entities in notes to this report.

Reporting on the State's Most Significant Funds

Fund Financial Statements present financial information in a form more familiar to experienced users of governmental financial statements. However, these statements now focus on the most significant funds. Use these statements to find more detailed information about the state's most significant activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activities is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help you determine whether there are more or less resources available for the state's programs. The reconciliation following the Fund Financial Statements explains the differences between the government's activities, reported in the Government-Wide Statement of Net Assets and the Government-Wide Statement of Activities, and the governmental funds. The General Fund, State Highway Fund, and Permanent School Fund are reported as major funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities

reported in the Government-Wide Financial Statements but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in Internal Service Funds, the other component of proprietary funds. The state's Employee's Life, Accident, and Health Insurance Benefits Fund is reported as the only internal service fund.

Colleges and Universities, Texas Water Development Board Funds, Veterans Land Board Loan Program Funds, and the Texas Department of Transportation Turnpike Authority are shown as major funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee, or fiduciary, for seven defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The activities are reported separately from other financial activities because the state cannot use these assets to finance state operations and is responsible for

ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Assets

Total assets of the state on August 31, 2003, were \$132.8 billion, a decrease of \$0.4 billion. Total liabilities as of August 31, 2003 were \$35.7 billion, a decrease of \$2.7, or 7 percent. This results in a net asset balance of \$97.1 billion in fiscal year 2003, an increase of \$2.3 billion, or 2 percent. Of the state's net assets, \$55 billion were invested in capital assets, net of related debt, while \$36 billion were restricted by statute or other legal requirements and were not available to finance day-to-day operations of the state. Unrestricted net assets were \$6.1 billion.

The state's bonded indebtedness was \$15.8 billion, which included new issuances of \$3.1 billion in state bonds to finance new construction, housing, water conservation, and other projects. Approximately \$2.1 billion in bonded debt was retired or refunded.

Statement of Net Assets

(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
ASSETS						
Assets Other Than Capital Assets	\$30,907,817	\$37,358,861	\$39,110,785	\$36,378,951	\$ 70,018,602	\$ 73,737,812
Capital Assets	52,374,079	50,469,549	10,489,061	9,023,775	62,863,140	59,493,324
Total Assets	83,281,896	87,828,410	49,599,846	45,402,726	132,881,742	133,231,136
LIABILITIES						
Current Liabilities	8,752,581	13,998,925	5,931,546	4,746,484	14,684,127	18,745,409
Non-Current Liabilities	4,457,381	4,353,439	16,596,520	15,259,831	21,053,901	19,613,270
Total Liabilities	13,209,962	18,352,364	22,528,066	20,006,315	35,738,028	38,358,679
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	49,254,086	47,321,790	5,736,632	5,141,823	54,990,718	52,463,613
Restricted	20,845,719	20,088,960	15,167,587	14,413,670	36,013,306	34,502,630
Unrestricted	(27,871)	2,065,296	6,167,561	5,840,918	6,139,690	7,906,214
Total Net Assets	\$70,071,934	\$69,476,046	\$27,071,780	\$25,396,411	\$ 97,143,714	\$ 94,872,457

Changes in Net Assets

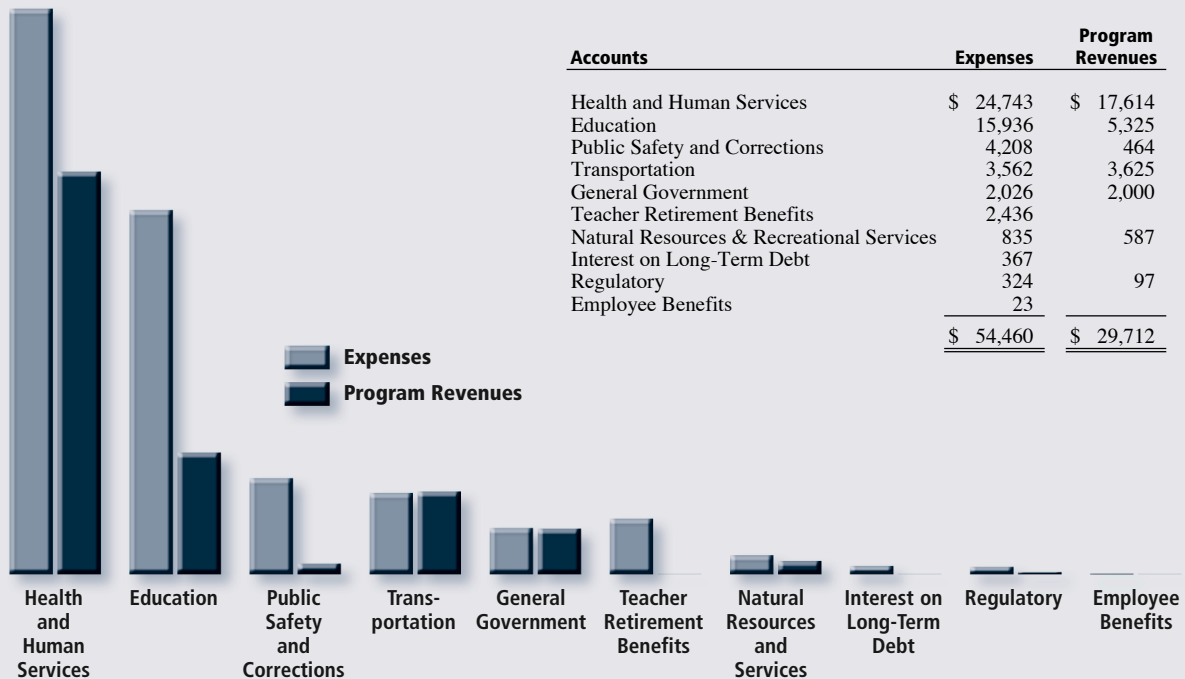
The state earned program revenues of \$47.1 billion and general revenues (including Extraordinary Items) of \$28.8 billion, for total revenues (including Extraordinary Items) of \$75.9 billion, an increase of \$11.3 billion, or 17 percent.

The expenses of the state were \$73.9 billion, an increase of \$5.1 billion, or 7 percent. As a result of revenues exceeding expenses, the state's total net assets increased by \$2.3 billion. Revenues and expenses of the state's governmental and business-type activities are detailed below.

Changes in Net Assets (In Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
REVENUES						
Program Revenues:						
Charges for Services	\$ 4,340,052	\$ 3,976,038	\$10,994,237	\$ 9,308,464	\$15,334,289	\$13,284,502
Operating Grants and Contributions	22,801,211	17,563,832	6,244,537	3,299,297	29,045,748	20,863,129
Capital Grants and Contributions	2,570,634	2,191,470	162,991	51,930	2,733,625	2,243,400
Total Program Revenues	29,711,897	23,731,340	17,401,765	12,659,691	47,113,662	36,391,031
General Revenues:						
Taxes	26,168,037	25,432,682			26,168,037	25,432,682
Unrestricted Investment Earnings	239,198	383,608	28,020	108,831	267,218	492,439
Federal Jobs and Growth Tax Relief Funds	354,535				354,535	
Settlement of Claims	563,196	512,579	5	2,579	563,201	515,158
Gain on Sale of Capital Assets	6,359			750	6,359	750
Capital Contributions	600		1,318	112,088	1,918	112,088
Other General Revenue	787,866	618,981	329,238	301,020	1,117,104	920,001
Contributions to Permanent and Term Endowments			235,995	101,473	235,995	101,473
Total General Revenues	28,119,791	26,947,850	594,576	626,741	28,714,367	27,574,591
Total Revenues	<u>57,831,688</u>	<u>50,679,190</u>	<u>17,996,341</u>	<u>13,286,432</u>	<u>75,828,029</u>	<u>63,965,622</u>
EXPENSES						
General Government	2,026,241	1,947,049			2,026,241	1,947,049
Education	15,935,961	15,831,226			15,935,961	15,831,226
Employee Benefits	22,644	14,757			22,644	14,757
Teacher Retirement Benefits	2,435,727	1,201,886			2,435,727	1,201,886
Health and Human Services	24,742,714	22,817,118			24,742,714	22,817,118
Public Safety and Corrections	4,207,856	4,170,817			4,207,856	4,170,817
Transportation	3,562,159	3,576,274			3,562,159	3,576,274
Natural Resources and Recreational Services	835,139	736,111			835,139	736,111
Regulatory	324,567	273,023			324,567	273,023
Interest on Long-Term Debt	366,847	403,784			366,847	403,784
Colleges & Universities			12,870,785	12,195,316	12,870,785	12,195,316
Texas Water Development Board			158,881	149,767	158,881	149,767
Veterans Land Board Loan Program			94,941	136,556	94,941	136,556
Texas Department of Transportation Turnpike Authority			57	13,011	57	13,011
Other Business-Type Activities			6,339,840	5,317,618	6,339,840	5,317,618
Total Expenses	<u>54,459,855</u>	<u>50,972,045</u>	<u>19,464,504</u>	<u>17,812,268</u>	<u>73,924,359</u>	<u>68,784,313</u>
Excess (Deficiency) before Extraordinary Items and Transfers	3,371,833	(292,855)	(1,468,163)	(4,525,836)	1,903,670	(4,818,691)
Extraordinary Item Transfers	(3,069,447)	(3,171,399)	36,531	603,679	36,531	603,679
Increase (Decrease) in Net Assets	<u>302,386</u>	<u>(3,464,254)</u>	<u>1,637,815</u>	<u>(750,758)</u>	<u>1,940,201</u>	<u>(4,215,012)</u>
Net Assets, September 1, 2002	69,476,046	72,940,300	25,396,411	26,147,169	94,872,457	99,087,469
Restatements	293,502		37,554		331,056	
Net Assets, September 1, 2002 as Restated	<u>69,769,548</u>	<u>72,940,300</u>	<u>25,433,965</u>	<u>26,147,169</u>	<u>95,203,513</u>	<u>99,087,469</u>
Net Assets, August 31, 2003	<u>\$70,071,934</u>	<u>\$69,476,046</u>	<u>\$27,071,780</u>	<u>\$25,396,411</u>	<u>\$97,143,714</u>	<u>\$94,872,457</u>

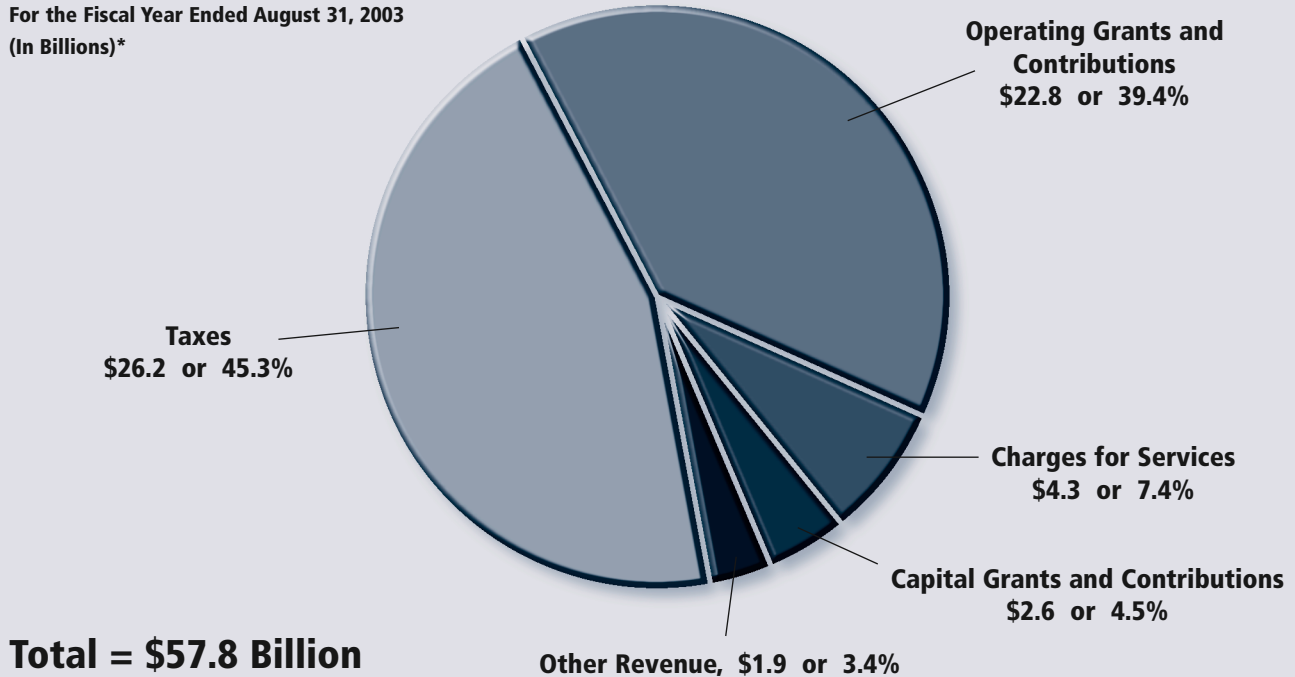
Expenses and Program Revenues Governmental Activities

For the Fiscal Year Ended August 31, 2003 (In Millions)



Revenue by Source Governmental Activities

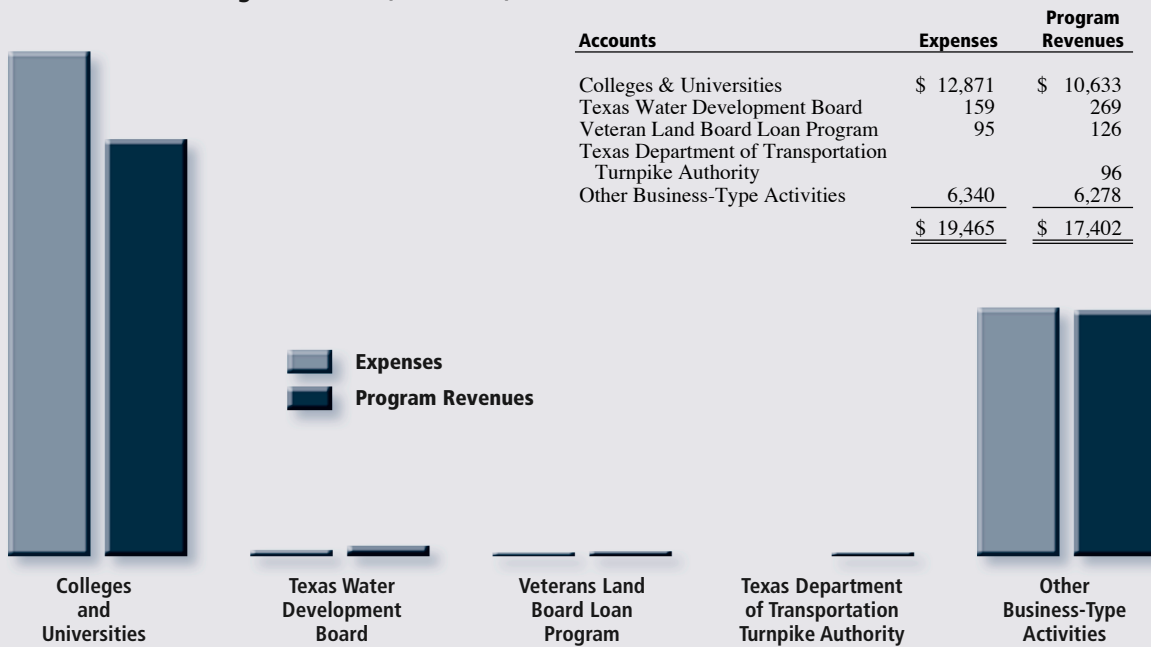
For the Fiscal Year Ended August 31, 2003
(In Billions)*



* Totals may not add due to rounding

Expenses and Program Revenues Business-Type Activities

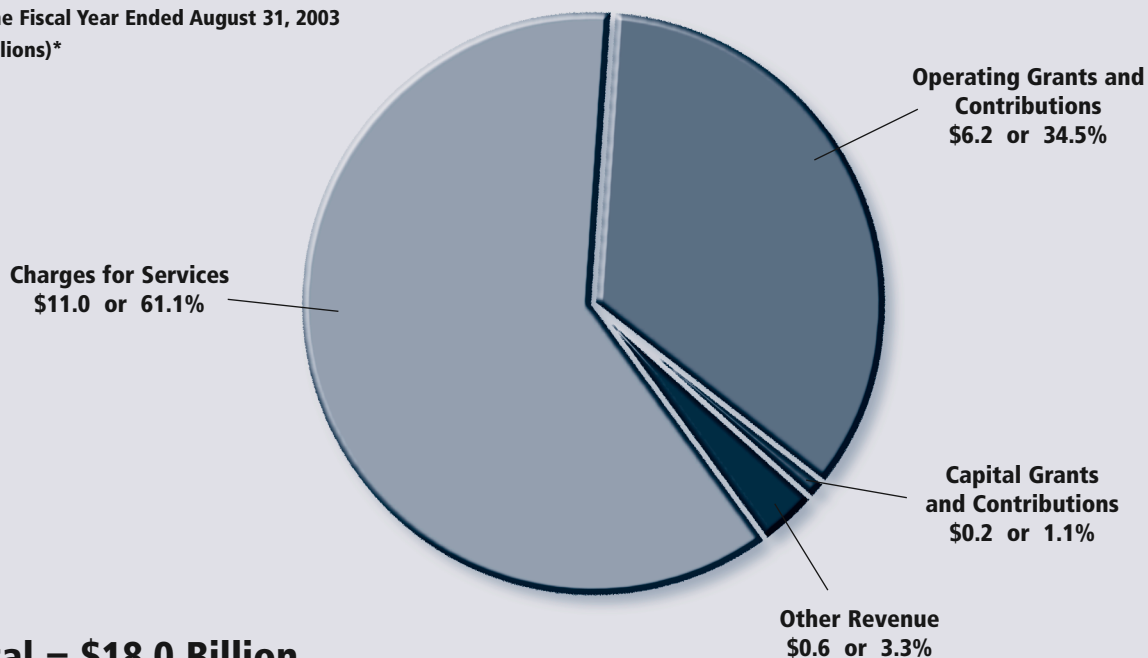
For the Fiscal Year Ended August 31, 2003 (In Millions)*



* Totals may not add due to rounding

Revenue by Source Business-Type Activities

For the Fiscal Year Ended August 31, 2003
(In Billions)*



Total = \$18.0 Billion

* Totals may not add due to rounding

Net Cost of the State's Governmental Activities

(In Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 2,026,241	\$ 26,271
Education	15,935,961	10,610,625
Employee Benefits	22,644	22,532
Teacher Retirement Benefits	2,435,727	2,435,727
Health and Human Services	24,742,714	7,128,490
Public Safety and Corrections	4,207,856	3,743,916
Transportation	3,562,159	(63,049)
Natural Resources and Recreational Services	835,139	248,516
Regulatory	324,567	228,083
Interest on Long-Term Debt	366,847	366,847
Total	<u>\$54,459,855</u>	<u>\$24,747,958</u>

Net Cost of the State's Business-Type Activities

(In Thousands)

	Total Cost of Services	Net Cost (Income) of Services
Colleges and Universities	\$12,870,785	\$ 2,237,940
Texas Water Development Board	158,881	(109,709)
Veterans Land Board Loan Program	94,941	(30,906)
Texas Department of Transportation Turnpike Authority	57	(96,005)
Other Business-Type Activities	6,339,840	61,419
Total	<u>\$19,464,504</u>	<u>\$ 2,062,739</u>

Governmental Activities

The governmental activities program revenue is \$29.7 billion, including charges for services of \$4.3 billion, operating grants and contributions of \$22.8 billion, and \$2.6 billion reported in capital grants and contributions. Governmental activities expenses were \$54.5 billion, resulting in a net cost of governmental services of \$24.7 billion, a decrease of \$2.5 billion, or 9 percent.

All functions of governmental activities in the Statement of Activities are in deficit except for the function of transportation, which reports a surplus. The surplus is related to the Texas Department of Transportation (TxDOT), which is receiving a significant number of capital grants from the Federal Highway Administration. Under full accrual, as shown in the transportation function in the Statement of Activities, most of the capital outlay is capitalized versus expensed. Also, TxDOT is using the modified approach for

infrastructure and therefore, depreciation expense related to the roadways is not reported on the Statement of Activities.

Business-Type Activities

Business-type activities generated program revenue of \$17.4 billion, including charges for services of \$11 billion, operating grants and contributions of \$6.2 billion, and \$163 million reported in capital grants and contributions. The total expenses for business-type activities were \$19.5 billion, resulting in a net cost from the government's business-type activities of \$2.1 billion, a decrease of \$3 billion, or 58 percent from the prior year.

Financial Analysis of the State's Funds

Governmental Funds

As of August 31, 2003, governmental funds reported fund balances of \$20.9 billion. Of this total amount, a negative \$598 million constitutes unreserved fund balances. This negative unreserved fund balance is mainly due to the negative \$2.3 billion unreserved fund balance reported in the General Fund. The State Highway Fund, and the Nonmajor Funds reported unreserved fund balances of \$289 million, and \$1.4 billion, respectively. The Permanent School Fund had no unreserved fund balance.

General Fund

The fund balance for the General Fund as of August 31, 2003 was a negative \$1.3 billion, a decrease of \$2.4 billion from \$1.1 billion in fiscal year 2002. Most of this decrease was anticipated during the budgeting process for the 2002-2003 biennium. The certification revenue estimate issued in October 2001, projected a decrease of almost \$4 billion in cash balances. The 2003 decline in the fund balance for the General Fund reflects the spending down of balances as predicted earlier.

While the state did experience shortfalls compared to anticipated revenues for the General Fund in fiscal 2003, most of the shortfall was offset by actions of the 78th Legislature, particularly HB 7, reducing state agencies budgets.

The state also drew heavily on the Economic Stabilization Fund during 2003. Over \$433 million was appropriated to Medicaid acute care programs and the Children's Health Insurance Program from this source.

Total General Fund revenue growth in fiscal 2003 was driven by increases in federal income. Additional expenditures by the Health and Human Services Commission on Medicaid generated significant increases in federal matching dollars.

Also, the state received fiscal relief funds from the federal government in fiscal 2003. The federal government provided a flexible use grant for \$354 million and increased the FMAP rate for federal matching dollars spent on Medicaid that generated an estimated \$187 million in federal income.

Increases in the General Fund total expenditures were primarily the result of Health and Human Service expenditures on the state's Medicaid program. In federal fiscal year 2003, Texas Medicaid expenditures increased to \$15.0 billion from \$13.0 billion in federal fiscal year 2002¹.

Permanent School Fund

The fund balance for the Permanent School Fund as of August 31, 2003, totaled \$18.6 billion, an increase of \$1.3 billion since August 31, 2002. The favorable stock market increased the fair value of investments from \$16.9 billion in fiscal year 2002 to \$18 billion in fiscal year 2003, an increase of \$1.1 billion. The Permanent School Fund recognized \$1 billion in interest and investment income (realized and unrealized), up from a negative \$2 billion in fiscal year 2002. The price increases in oil and gas also raised the land income by \$115 million from \$161 million in fiscal year 2002 to \$276 million in fiscal year 2003.

State Highway Fund

The fund balance for the State Highway Fund as of August 31, 2003, was \$670 million, a decrease of only \$1 million from \$671 million as of August 31, 2002. To increase the speed of reimbursements, the Texas Department of Transportation (TxDOT) has changed its financing

method to the Tapered Method for a number of Federal Highway Administration projects. As a result, revenue and cash balances increased in fiscal year 2003. This increase in revenue allowed TxDOT to increase capital outlay in fiscal year 2003. Federal revenue increased by \$348 million, whereas capital outlay increased by \$387 million.

Proprietary Funds

Proprietary Funds reported net assets of \$27.1 billion as of August 31, 2003, an increase of \$1.7 billion from fiscal year 2002.

Colleges and Universities

Colleges and Universities net assets as of August 31, 2003, totaled \$24.7 billion, an increase of \$1.9 billion from August 31, 2002. The strong stock market in the second half of fiscal year 2003 increased investment returns. Interest and investment income increased from a negative \$0.5 billion to \$1.9 billion. Tuition revenue increased by \$142 million from \$1.5 billion in fiscal year 2002 to \$1.6 billion in fiscal year 2003 because of higher tuition and fees and increased enrollment. The increase in patient volumes and higher rates raised the hospital revenue by \$147 million from \$1.5 billion to \$1.6 billion in fiscal year 2003. On the other hand, salaries and wages, and payroll related costs went up by \$0.6 billion from \$7.3 billion to \$7.9 billion in fiscal year 2003. This is a result of salary increases and higher medical insurance premium costs. The contributions to permanent endowments also went up by \$135 million from \$101 million in fiscal year 2002 to \$236 million in fiscal year 2003. This is a result of capital campaign efforts to address facilities expansion and renovation and the establishment of endowments for instruction, research and patient care activities.

Texas Water Development Board Funds

The Texas Water Development Board Funds net assets totaled \$1.5 billion as of August 31, 2003, an increase of \$0.1 billion, from \$1.4 billion as of August 31, 2002. There was an increase in federal revenue to \$99 million in fiscal year 2003 from \$71 million in fiscal year 2002. Federal capitalization grant funds are drawn on the basis of outlay

¹ Source: Health and Human Services Commission presentation to the House Select Committee on State Health Care Expenditures, January 29, 2004.

reports from the entities receiving loans from the Clean Water and Drinking Water programs. Since outlay reports increased, federal grant funds increased. Short-term investments increased from \$525 million in fiscal year 2002 to \$681 million in fiscal year 2003, an increase of \$156 million. This is due to an increase in prepayments of loans receivable coupled with reduced closing activity on new loans.

Veterans Land Board Loan Program Funds

Net assets for the Veterans Land Board Loan Program Funds totaled \$656 million as of August 31, 2003, an increase of \$28 million, from \$628 million as of August 31, 2002. Interest expense decreased by \$49 million from \$113 million in fiscal year 2002 to \$64 million in fiscal year 2003 due to lower debt balance in fiscal year 2003. Interest and investment income decreased by \$42 million from \$155 million in fiscal year 2002 to \$113 million in fiscal year 2003 because of lower market interest rates on cash equivalents and short-term investments.

Texas Department of Transportation Turnpike Authority

Net assets for the Texas Department of Transportation Turnpike Authority totaled \$142 million as of August 31, 2003, an increase of \$99 million from August 31, 2002. This is mainly because fiscal year 2003 represents a full year of activity, whereas fiscal year 2002, the start up year for the Turnpike project, reported only part of the year's activity. Bonds were issued August 29, 2002.

Fiduciary Funds

Fiduciary Funds report \$109.3 billion in net assets as of August 31, 2003, an increase of \$8 billion from \$101.3 billion in fiscal year 2002.

Pension and Other Employee Benefit Trust Funds

Total net assets for Pension and Other Employee Benefit Trust Funds were \$96.1 billion, an increase of \$7 billion from the \$89.1 billion in fiscal year 2002.

External Investment Trust Funds

The External Investment Trust Funds reported total net assets of \$11.1 billion in fiscal year 2003, an increase of \$0.8 billion from the \$10.3 billion in fiscal year 2002. The majority of the total net assets was attributable to participant growth in the Texas Government Investment Pool (TexPool) Trust Fund.

Private-Purpose Trust Funds

Total net assets for Private-Purpose Trust Funds were \$2.1 billion in fiscal year 2003, an increase of \$0.1 billion from the \$2 billion in fiscal year 2002.

Budgetary Highlights

Variances for the General Fund

Final Budget compared to Original Budget showed several differences with the material difference being in federal funds. Federal funds budgeted in the final column of \$18.4 billion were higher than the original estimate of \$14.3 billion. This variance reflects higher federal receipts. The Health and Human Services area receives the largest portion for medical aid and public assistance and those agencies are allowed to expend all federal funds received. Federal funds are estimated, with the understanding that all federal funds received will be appropriated to the agencies. The education program also receives a large amount of federal funds.

In the Other Financing Sources (Uses) section, Transfers Out exceed Transfers In by \$6.5 billion in the final column and \$8.5 billion in the actual column. The excess amount spent in actual over final expenditures of \$658 million in the Health and Human Services, Transportation and Regulatory functions was offset by the excess actual over budget received of \$681 million in Transfers In. Along with increased spending authority from federal funds received, agencies are allowed to spend from transfers received and from available beginning balances in the Other Financing Sources (Uses) section.

Capital Assets – Net of Depreciation

(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	\$ 5,464,344	\$ 5,202,129	\$ 624,458	\$ 466,826	\$ 6,088,802	\$ 5,668,955
Infrastructure	40,819,677	39,551,878	198,221	195,132	41,017,898	39,747,010
Buildings and Building Improvements	2,855,425	2,892,868	4,515,015	4,054,816	7,370,440	6,947,684
Facilities and Improvements	80,354	78,991	425,895	372,244	506,249	451,235
Furniture and Equipment	267,498	262,055	912,569	825,047	1,180,067	1,087,102
Construction in Progress	2,337,998	1,931,484	2,350,329	1,753,940	4,688,327	3,685,424
Vehicles, Boats and Aircraft	331,993	337,728	53,236	58,168	385,229	395,896
Other Capital Assets	216,790	212,416	1,409,338	1,297,602	1,626,128	1,510,018
Total Capital Assets	<u>\$52,374,079</u>	<u>\$50,469,549</u>	<u>\$10,489,061</u>	<u>\$9,023,775</u>	<u>\$62,863,140</u>	<u>\$59,493,324</u>

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2003, the state had \$62.9 billion in net capital assets, of which \$41 billion was infrastructure. This represents an increase of \$3.4 billion in net capital assets, or 6 percent, from fiscal year 2002. The state's capital assets include land, buildings, infrastructure, furniture and equipment, vehicles, boats and aircraft, construction in progress, and facilities and improvements. The details of capital assets are shown in Note 2.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the Government-Wide Statements.

The state accounts for its system of roads and highways using the modified approach allowed by GASB Statement No. 34. The Texas Department of Transportation has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition index of at least 80 percent and its farm-to-market and other road systems at a condition level of 75 percent. The most recent assessment found that the state's highways were within these parameters, with the condition

of interstate highways at 81.3% and farm-to-market roads at a condition index rating of 78.5%.

In fiscal year 2003, the estimated maintenance expenditures for interstate highways were \$400 million, compared to \$331 million actual maintenance expenditures. The estimated versus actual maintenance expenditures for non-interstate highways were \$1,450 million and \$1,483 million, respectively. Budgetary constraints created the difference between the actual expenditures and the estimated ones.

Additional information on the state's road and highway infrastructure is presented in the Financial Section's Required Supplementary Information other than MD&A.

Debt Administration

The State of Texas issues both General Obligation bonds and Revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues are rated Aa1 by Moody's Investors Service, AA by Standard & Poor's Corporation, and AA+ by Fitch IBCA, as of August 31, 2003. During fiscal year 2003, Texas' state agencies and universities issued \$3.1 billion in state bonds to finance new construction, housing, water conservation and treatment, and other projects. General obligation debt accounted for \$786 million of state bonds issued in fiscal year 2003. This debt, which can only be authorized by a constitutional

Outstanding Bonded Debt

(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds Payable	\$3,184,583	\$3,080,731	\$ 2,599,197	\$ 2,670,594	\$ 5,783,780	\$ 5,751,325
Revenue Bonds Payable	738,917	809,128	9,276,913	8,263,757	10,015,830	9,072,885
Total Bonds Payable	<u>\$3,923,500</u>	<u>\$3,889,859</u>	<u>\$11,876,110</u>	<u>\$10,934,351</u>	<u>\$15,799,610</u>	<u>\$14,824,210</u>

amendment, carries the full faith and credit of the state. The remaining \$2.3 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired were composed of \$311 million in general obligation bonds and \$346 million in revenue bonds during the year. Also, \$442 million in general obligation bonds and \$980 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements, and refundings as of August 31, 2003, was \$5.8 billion. This represents an increase of only \$31 million from fiscal year 2002. An additional \$5 billion is authorized but has not been issued. Total revenue bonds outstanding were \$10 billion, which is an increase of \$0.9 billion, or 10 percent, from fiscal year 2002. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bonds.

Cash Management

Funds deposited in the State Treasury are pooled for investment purposes. The Treasury is authorized to invest in NOW accounts, time deposits, obligations of the United States, obligations of various federal credit organizations, repurchase agreements, reverse repurchase agreements, banker's acceptances, commercial paper, and mutual funds.

During fiscal year 2003, the average investment portfolio consisted of the following:

Average Investment Portfolio *

(In Millions)

Investment Type	Percent of Total	Average Amount Invested	Average Interest Rate
NOW Accounts	0.1 %	\$ 11	0.630 %
Time Deposits	0.3	29	1.669
BidTX	3.9	415	1.598
Repurchase Agreements	29.8	3,211	1.422
U.S Treasury & Agency Securities	47.1	5,069	2.514
U.S. Treasury (Lottery)	8.1	869	**
Commercial Paper	0.9	99	1.099
Mutual Funds	11.5	1,235	1.303
Subtotal	101.7	10,938	
Reverse Repurchase Agreements	(1.7)	(180)	1.062
Total	<u>100.0 %</u>	<u>\$ 10,758</u>	1.818

* The above numbers include primary government funds only.

** The yield for the lottery is not included in the average yield for the state since the investments are long-term and are held for lottery prize winners.

Economic Condition and Outlook

Texas employment growth outperformed the national economy during calendar year 2003. For the annual average of 2003, Texas added 0.2 percent employment (19,200 jobs) over the average annual 2002 employment, while the nation lost 729,000 jobs, or 0.6 percent. Texas' job change is an improvement over 2002, when the state experienced a revised loss of 1.0 percent of the jobs it had in 2001. Because of the time lag between an improving economy and falling unemployment rates, the state's unemployment rate rose, on the average, from 6.4 percent in 2002 to 6.5 percent in 2003, for its highest average rate since 1993. The nation's average unemployment rate moved up also, from 5.8 percent in 2002 to 6.0 percent in 2003.

Texas' real gross state product rose by an estimated 2.7 percent in 2003, while personal income advanced by an estimated 3.0 percent. Although lower than in recent years, these growth rates still exceeded the 2.3 percent inflation rate for the year and were an improvement over 2002.

The outlook for state revenue has improved somewhat over the 2002-2003 budget period. The fiscal 2003 ending balance in general revenue-related funds was \$88 million. The 2004-2005 Certification Revenue Estimate, released in December 2003, indicates revenue available for general purpose spending for the biennium of \$58.4 billion. The growth in the state's largest tax, the sales tax, which was negative in both 2002 and 2003, is expected to be positive in fiscal years 2004 and 2005, with expected growth of 2.9 percent and 5.5 percent, respectively. Throughout 2004-2005, the Texas economy will gradually improve, with real growth averaging 4.1 percent.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting Section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.

Basic Financial Statements



State of Texas
Statement of Net Assets
August 31, 2003 (Amounts in Thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
			Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Note 3)	\$ 2,853,172	\$ 3,491,719	\$ 6,344,891
Securities Lending Collateral (Note 3)	2,274,072	578,272	2,852,344
Investments (Note 3)	379,912	1,051,461	1,431,373
Restricted:			
Cash and Cash Equivalents (Note 3)	3,169	1,012,463	1,015,632
Investments (Note 3)		733,790	733,790
Loans and Contracts	260	53,782	54,042
Receivables:			
Taxes	1,565,535		1,565,535
Federal	1,542,776	276,970	1,819,746
Other Intergovernmental	467,974	31,749	499,723
Accounts	282,659	581,401	864,060
Interest and Dividends	164,672	204,366	369,038
Gifts		88,508	88,508
Investment Trades		182,380	182,380
Other	47,751	630,184	677,935
From Fiduciary Funds	53,393		53,393
Due From Primary Government (Note 12)			
Due From Component Units (Note 12)	397	15	412
Inventories	224,687	100,662	325,349
Prepaid Items	2,221	79,976	82,197
Loans and Contracts	106,069	309,668	415,737
Other Current Assets	452	142,216	142,668
Total Current Assets	<u>9,969,171</u>	<u>9,549,582</u>	<u>19,518,753</u>
Non-Current Assets:			
Restricted:			
Cash and Cash Equivalents (Note 3)	1,014	303,425	304,439
Short Term Investments (Note 3)		894,058	894,058
Investments (Note 3)		18,151,068	18,151,068
Receivables	126,222	490,045	616,267
Loans and Contracts	569,591	2,448,582	3,018,173
Other	131	12,485	12,616
Internal Balances (Note 12)	7,366	(7,366)	
Loans and Contracts	441,217	2,841,961	3,283,178
Investments (Note 3)	19,030,954	4,117,544	23,148,498
Receivables:			
Taxes	464,003		464,003
Other	121,315		121,315
Gifts		159,516	159,516
Capital Assets: (Note 2)			
Capital Assets - Non-Depreciable	42,089,185	4,296,256	46,385,441
Capital Assets - Depreciable	20,807,878	13,830,128	34,638,006
Accumulated Depreciation	(10,522,984)	(7,637,323)	(18,160,307)
Assets Held in Trust		55,223	55,223
Net Pension Asset (Note 9)	155,580		155,580
Other Non-Current Assets	21,253	94,662	115,915
Total Non-Current Assets	<u>73,312,725</u>	<u>40,050,264</u>	<u>113,362,989</u>
Total Assets	<u>83,281,896</u>	<u>49,599,846</u>	<u>132,881,742</u>

Concluded on the following page

State of Texas
Statement of Net Assets (concluded)
August 31, 2003 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 3,265,346	\$ 1,232,242	\$ 4,497,588	\$ 16,113
Payroll	480,753	170,782	651,535	28
Other Intergovernmental	443,676	3,806	447,482	
Federal	3,560	62,340	65,900	19,305
Investment Trades		504,000	504,000	
Other	487,009		487,009	
To Fiduciary Funds	11,046		11,046	
Internal Balances (Note 12)	355,195	(355,195)		
Due To Primary Government (Note 12)				412
Due To Component Units (Note 12)	1,359		1,359	155
Deferred Revenue	606,223	1,468,208	2,074,431	28,401
Obligations/Reverse Repurchase Agreement	174,280		174,280	
Obligations/Securities Lending	2,274,073	578,272	2,852,345	
Claims and Judgments (Note 5)	96,148	16,408	112,556	
Capital Lease Obligations (Note 5, 7)	3,966	2,660	6,626	196
Employees' Compensable Leave (Note 5)	337,479	54,534	392,013	2,727
Notes and Loans Payable (Note 5)	15,906	767,364	783,270	59,326
General Obligation Bonds Payable (Note 5, 6)	128,626	103,775	232,401	
Revenue Bonds Payable (Note 5, 6)	67,936	429,014	496,950	11,369
Liabilities Payable From Restricted Assets (Note 5) *		393,197	393,197	2,781
Funds Held for Others		125,427	125,427	
Other Current Liabilities (Note 5) **		374,712	374,712	12,288
Total Current Liabilities	8,752,581	5,931,546	14,684,127	153,101
Non-Current Liabilities:				
Deferred Revenue		1,258	1,258	
Claims and Judgments (Note 5)	114,567	48,363	162,930	
Capital Lease Obligations (Note 5, 7)	47,738	20,702	68,440	152
Employees' Compensable Leave (Note 5)	155,344	341,459	496,803	1,327
Notes and Loans Payable (Note 5)	87,293	1,121,561	1,208,854	196,067
Liabilities Payable From Restricted Assets (Note 5)		3,201,321	3,201,321	151,390
General Obligation Bonds Payable (Note 5, 6)	3,055,957	2,495,422	5,551,379	
Revenue Bonds Payable (Note 5, 6)	670,981	8,847,899	9,518,880	161,649
Assets Held for Others (Note 5) ***		420,174	420,174	
Net Pension Obligation (Note 5, 9)	325,376		325,376	
Other Non-Current Liabilities (Note 5) ****	125	98,361	98,486	64,187
Total Non-Current Liabilities	4,457,381	16,596,520	21,053,901	574,772
Total Liabilities	13,209,962	22,528,066	35,738,028	727,873
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	49,254,086	5,736,632	54,990,718	43,245
Restricted for:				
Education	458,788	1,611,811	2,070,599	13,492
Highway Construction	670,717		670,717	
Debt Service	252,369	123,167	375,536	
Capital Projects	148,557	214,431	362,988	220
Veterans Land Board Housing Programs		636,134	636,134	
Funds Held as Permanent Investments:				
Nonexpendable	18,558,596	12,205,937	30,764,533	
Expendable		304,598	304,598	
Other	756,692	71,509	828,201	35,223
Unrestricted	(27,871)	6,167,561	6,139,690	122,906
Total Net Assets	\$ 70,071,934	\$ 27,071,780	\$ 97,143,714	\$ 215,086

The accompanying notes to the financial statements are an integral part of this statement.

* Of the \$393,197, the current portion of Long-Term Liabilities is \$328,209, and is reported in Note 5, whereas \$64,988 is Current Liabilities.

** Of the \$374,712 reported by the primary government, \$1,231 is the current portion of Long-Term Liabilities and is reported in Note 5, whereas \$373,481 is Current Liabilities. Also, of the \$12,288 reported by component units, \$248 is the current portion of Long-Term Liabilities and is reported in Note 5, whereas \$12,040 is Current Liabilities.

*** Of the \$420,174, the non-current portion of Long-Term Liabilities is \$107,290, and is reported in Note 5, whereas \$312,884 is Non-Current Liabilities.

**** Of the \$98,486, the non-current portion of Other Long-Term Liabilities is \$95,206, and is reported in Note 5, whereas \$3,280 is Non-Current Liabilities.

State of Texas

Statement of Activities

For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 2,026,241	\$ 1,378,735	\$ 621,186	\$ 49
Education	15,935,961	485,676	4,839,640	20
Employee Benefits	22,644	112		
Teacher Retirement Benefits	2,435,727			
Health and Human Services	24,742,714	821,773	16,792,451	
Public Safety and Corrections	4,207,856	148,420	315,520	
Transportation	3,562,159	974,627	80,025	2,570,556
Natural Resources and Recreation	835,139	437,834	148,780	9
Regulation	324,567	92,875	3,609	
Indirect Interest on Long Term Debt	366,847			
Total Governmental Activities	<u>54,459,855</u>	<u>4,340,052</u>	<u>22,801,211</u>	<u>2,570,634</u>
Business-Type Activities:				
Colleges and Universities	12,870,785	5,188,571	5,363,216	81,058
Texas Water Development Board Funds	158,881	3,002	265,588	
Veterans Land Board Loan Program Funds	94,941	25,699	100,148	
Texas Department of Transportation Turnpike Authority	57		14,129	81,933
Other Business-Type Activities	6,339,840	5,776,965	501,456	
Total Business-Type Activities	<u>19,464,504</u>	<u>10,994,237</u>	<u>6,244,537</u>	<u>162,991</u>
Total Primary Government	<u>\$ 73,924,359</u>	<u>\$ 15,334,289</u>	<u>\$ 29,045,748</u>	<u>\$ 2,733,625</u>
Component Units				
Component Units	<u>\$ 425,641</u>	<u>\$ 265,724</u>	<u>\$ 138,873</u>	<u>\$ 1,160</u>
Total Component Units	<u>\$ 425,641</u>	<u>\$ 265,724</u>	<u>\$ 138,873</u>	<u>\$ 1,160</u>

General Revenues

Taxes:

Sales and Use

Motor Vehicle and Manufactured Housing

Motor Fuels

Franchise

Oil and Natural Gas Production

Insurance Occupation

Cigarette and Tobacco

Other

Unrestricted Investment Earnings

Federal Jobs and Growth Tax Relief Funds

Settlement of Claims

Gain on Sale of Capital Assets

Capital Contributions

Other General Revenues

Contributions to Permanent and Term Endowments

Extraordinary Items (Note 23)

Transfers--Internal Activities (Note 12)

Total General Revenues, Contributions, Extraordinary Items, and Transfers

Change in Net Assets

Net Assets, September 1, 2002

Restatements (Note 14)

Net Assets, September 1, 2002, as Restated

Net Assets, August 31, 2003

The accompanying notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (26,271)	\$	\$ (26,271)	\$
(10,610,625)		(10,610,625)	
(22,532)		(22,532)	
(2,435,727)		(2,435,727)	
(7,128,490)		(7,128,490)	
(3,743,916)		(3,743,916)	
63,049		63,049	
(248,516)		(248,516)	
(228,083)		(228,083)	
(366,847)		(366,847)	
(24,747,958)	0	(24,747,958)	0
	(2,237,940)	(2,237,940)	
	109,709	109,709	
	30,906	30,906	
	96,005	96,005	
	(61,419)	(61,419)	
0	(2,062,739)	(2,062,739)	0
(24,747,958)	(2,062,739)	(26,810,697)	0
			(19,884)
0	0	0	(19,884)
14,349,758		14,349,758	
2,795,211		2,795,211	
2,790,936		2,790,936	
1,532,820		1,532,820	
1,531,275		1,531,275	
1,179,553		1,179,553	
583,159		583,159	
1,405,325		1,405,325	
239,198	28,020	267,218	4,578
354,535		354,535	
563,196	5	563,201	
6,359		6,359	228
600	1,318	1,918	
787,866	329,235	1,117,101	84,474
	235,997	235,997	
	36,532	36,532	
(3,069,447)	3,069,447		
25,050,344	3,700,554	28,750,898	89,280
302,386	1,637,815	1,940,201	69,396
69,476,046	25,396,411	94,872,457	118,300
293,502	37,554	331,056	27,390
69,769,548	25,433,965	95,203,513	145,690
\$ 70,071,934	\$ 27,071,780	\$ 97,143,714	\$ 215,086

State of Texas
Balance Sheet – Governmental Funds
August 31, 2003 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Current Assets:					
Cash and Cash Equivalents (Note 3)	\$ 119,520	\$ 936,824	\$ 426,554	\$ 1,333,890	\$ 2,816,788
Securities Lending Collateral (Note 3)			2,176,595	74,673	2,251,268
Investments (Note 3)	174,734		98,787	52,450	325,971
Restricted:					
Cash and Cash Equivalents (Note 3)	1,967			1,202	3,169
Loans and Contracts	260				260
Receivables:					
Taxes	1,565,535				1,565,535
Federal	1,221,767	318,861		2,148	1,542,776
Other Intergovernmental	339,088	128,886			467,974
Accounts	118,478	20,011	58,247	462	197,198
Interest and Dividends	1,159	2,950		160,506	164,615
Other (Note 1)	41,433		2,039	4,279	47,751
Due From Other Funds (Note 12)	77,041	184,257	124,681	151,244	537,223
Due From Component Units (Note 12)	397				397
Interfund Receivable (Note 12)	443				443
Inventories	149,857	73,482		1,348	224,687
Prepaid Items	2,221				2,221
Loans and Contracts	2,799	5,472	113	97,685	106,069
Other Current Assets	415			37	452
Total Current Assets	<u>3,817,114</u>	<u>1,670,743</u>	<u>2,887,016</u>	<u>1,879,924</u>	<u>10,254,797</u>
Non-Current Assets:					
Investments (Note 3)			17,880,688	907,877	18,788,565
Receivables:					
Taxes	464,003				464,003
Other	121,315				121,315
Interfund Receivable (Note 12)	11,006				11,006
Restricted:					
Cash and Cash Equivalents (Note 3)	1,014				1,014
Receivables	66			126,156	126,222
Loans and Contracts	81,441			488,150	569,591
Other Assets	131				131
Loans and Contracts	46,919	226,359	1,359	166,580	441,217
Other Non-Current Assets		21,253			21,253
Total Non-Current Assets	<u>725,895</u>	<u>247,612</u>	<u>17,882,047</u>	<u>1,688,763</u>	<u>20,544,317</u>
Total Assets	<u>\$ 4,543,009</u>	<u>\$ 1,918,355</u>	<u>\$20,769,063</u>	<u>\$ 3,568,687</u>	<u>\$30,799,114</u>

Concluded on the following page

State of Texas
Balance Sheet – Governmental Funds (concluded)
August 31, 2003 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables:					
Accounts	\$ 1,955,077	\$ 648,203	\$ 23,797	\$ 247,827	\$ 2,874,904
Payroll	393,527	79,466		7,760	480,753
Other Intergovernmental	443,676				443,676
Federal	3,478			82	3,560
Other	212,234	212,958		1,326	426,518
Deferred Revenues	1,982,896	305,506	7,511	64,480	2,360,393
Due To Other Funds (Note 12)	659,233	2,069	2,564	185,694	849,560
Due To Component Units (Note 12)	1,359				1,359
Interfund Payable (Note 12)	74			116	190
Claims and Judgments (Note 5)	24				24
Obligations/Reverse Repurchase Agreements	174,280				174,280
Obligations/ Securities Lending			2,176,595	74,673	2,251,268
	<u>5,825,858</u>	<u>1,248,202</u>	<u>2,210,467</u>	<u>581,958</u>	<u>9,866,485</u>
Non-Current Liabilities:					
Interfund Payable (Note 12)	814			2,826	3,640
Other Non-Current Liabilities	125				125
Total Non-Current Liabilities	<u>939</u>	<u>0</u>	<u>0</u>	<u>2,826</u>	<u>3,765</u>
Total Liabilities	<u>5,826,797</u>	<u>1,248,202</u>	<u>2,210,467</u>	<u>584,784</u>	<u>9,870,250</u>
Fund Balances/(Deficits):					
Reserved (Note 13)	1,042,336	380,924	18,558,596	1,545,263	21,527,119
Unreserved (Note 13):					
General	(2,326,124)				(2,326,124)
Special Revenue		289,229		966,569	1,255,798
Capital Projects				13,630	13,630
Permanent				458,441	458,441
Total Fund Balances	<u>(1,283,788)</u>	<u>670,153</u>	<u>18,558,596</u>	<u>2,983,903</u>	<u>20,928,864</u>
Total Liabilities and Fund Balances	<u>\$ 4,543,009</u>	<u>\$ 1,918,355</u>	<u>\$20,769,063</u>	<u>\$ 3,568,687</u>	<u>\$30,799,114</u>

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

August 31, 2003 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$20,928,864

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets less accumulated depreciation are included in the Statement
of Net Assets (Note 2):

Capital Assets - Non-Depreciable	\$42,089,185	
Capital Assets - Depreciable	20,807,878	
Accumulated Depreciation	<u>(10,522,984)</u>	
		52,374,079

Certain pension funds have been funded in excess of the annual required
contributions, creating a year-end asset. The asset is not a current
available resource and is not reported in the funds. (Note 9) 155,580

Some of the state's revenues will be collected after year-end but are not
available soon enough to pay current year's expenditures and therefore are
deferred in the funds. 1,755,256

Long-term liabilities applicable to the state's governmental activities are
not due and payable in the current period and accordingly are not reported
in the funds. However these liabilities are included in the Statement of
Net Assets. (Note 5)

Claims and Judgments	(210,691)	
Capital Lease Obligations	(51,704)	
Employees' Compensable Leave	(492,823)	
Notes and Loans Payable	(103,199)	
G. O. Bonds Payable	(3,184,583)	
Revenue Bonds Payable	(738,917)	
Net Pension Obligation	<u>(325,376)</u>	
		(5,107,293) *

* Current Portion = \$650,037 and Non-Current Portion = \$4,457,256

Interest payable applicable to the state's governmental activities are not due
and payable in the current period and accordingly are not reported in the funds.
However these liabilities are included in the Statement of Net Assets. (60,491)

Internal service funds are used by management to charge the costs of
Employees Life, Accident, and Health Insurance Benefits Fund to individual
funds. Since governmental activities are the predominant activities of
internal service funds, the assets and liabilities of the internal service funds
are included in governmental activities in the Statement of Net Assets.

25,939

Net Assets of Governmental Activities \$70,071,934

State of Texas
Statement of Revenues, Expenditures, and
Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$25,906,873	\$ 31,900	\$	\$	\$25,938,773
Federal	20,311,966	2,659,108		46,371	23,017,445
Licenses, Fees, and Permits	1,983,152	828,484		109,253	2,920,889
Interest and Other Investment Income	96,776	22,599	1,023,803	974,770	2,117,948
Land Income	11,636	1,965	275,860	8,897	298,358
Settlement of Claims	554,023	8,949	7	25	563,004
Sales of Goods and Services	974,382	151,717		4,771	1,130,870
Other	1,451,149	6,084		6,403	1,463,636
Total Revenues	<u>51,289,957</u>	<u>3,710,806</u>	<u>1,299,670</u>	<u>1,150,490</u>	<u>57,450,923</u>
EXPENDITURES					
Current:					
General Government	1,827,031	10,649	597	122,335	1,960,612
Education	14,197,634			1,729,758	15,927,392
Employee Benefits	790			11,246	12,036
Health & Human Services	24,226,546			463,163	24,689,709
Public Safety & Corrections	3,602,176	347,464		116,928	4,066,568
Transportation	32,485	3,027,258		5,389	3,065,132
Natural Resources & Recreation	747,038			40,395	787,433
Regulation	260,148			50,886	311,034
Capital Outlay	128,021	2,415,145		111,093	2,654,259
Debt Service:					
Principal	3,937			362,951	366,888
Interest	163,975			196,124	360,099
Total Expenditures	<u>45,189,781</u>	<u>5,800,516</u>	<u>597</u>	<u>3,210,268</u>	<u>54,201,162</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,100,176</u>	<u>(2,089,710)</u>	<u>1,299,073</u>	<u>(2,059,778)</u>	<u>3,249,761</u>
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	1,819,187	2,085,769		1,888,435	5,793,391
Transfer Out (Note 12)	(10,355,724)	(10,950)	(14,268)	(556,052)	(10,936,994)
Bonds and Notes Issued				383,418	383,418
Bond Proceeds for Advance Refunding				164,395	164,395
Payments to Escrow for Advance Refunding				(164,395)	(164,395)
Sale of Capital Assets	4,138	13,720		2,805	20,663
Increase in Obligations Under Capital Leases	4,079				4,079
Total Other Financing Sources (Uses)	<u>(8,528,320)</u>	<u>2,088,539</u>	<u>(14,268)</u>	<u>1,718,606</u>	<u>(4,735,443)</u>
Net Change in Fund Balances	<u>(2,428,144)</u>	<u>(1,171)</u>	<u>1,284,805</u>	<u>(341,172)</u>	<u>(1,485,682)</u>
Fund Balances, September 1, 2002	1,060,743	671,324	17,273,791	3,353,071	22,358,929
Restatements (Note 14)	83,613			(27,996)	55,617
Fund Balances, September 1, 2002, as Restated	<u>1,144,356</u>	<u>671,324</u>	<u>17,273,791</u>	<u>3,325,075</u>	<u>22,414,546</u>
Fund Balances, August 31, 2003	<u>\$ (1,283,788)</u>	<u>\$ 670,153</u>	<u>\$18,558,596</u>	<u>\$ 2,983,903</u>	<u>\$20,928,864</u>

The accompany notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

Net Change in Fund Balance \$(1,485,682)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

Capital Outlay	\$ 2,654,259	
Depreciation Expense	<u>(746,127)</u>	1,908,132

The effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net assets.		(13,363)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		294,981
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Internal Service Funds are used by management to charge the costs of Employees Life, Accident, and Health Insurance Benefits Fund to individual funds. The adjustments for internal service funds "closes" those funds by allocating these amounts to participating governmental activities.		6,606
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The issuance of long-term debt and increase in obligations under capital leases provides current financial resources to governmental funds, while the repayment of the principal of long term debt and capital leases consumes the current financial resources of governmental funds.

Bond and Note Proceeds	(383,418)	
Increase in Obligations under Capital Lease	(4,079)	
Repayment of Bond Principal	362,638	
Repayment of Capital Lease	<u>4,250</u>	(20,609)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		(369,034)
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Resource flows between fiduciary funds, discrete component units and governmental funds are converted to revenues or expenses on the Statement of Activities. Transfers of capital assets have not been reported in the Governmental Funds.

Capital Asset Transfers	(18,645)	
Change in Transfers	2,092,801	
Increase in Revenues	66,423	
Increase in Expenses	<u>(2,159,224)</u>	<u>(18,645)</u>

Change in Net Assets of Governmental Activities \$ 302,386

State of Texas
Statement of Net Assets
Proprietary Funds
August 31, 2003 (Amounts in Thousands)

August 31, 2003 (Amounts in Thousands)	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Funds*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
ASSETS							
Current Assets:							
Cash and Cash Equivalents (Note 3)	\$ 2,778,245	\$ 206,458	\$	\$	\$ 507,016	\$ 3,491,719	\$ 36,384
Securities Lending Collateral (Note 3)	428,329		29,069		120,874	578,272	22,804
Investments (Note 3)	370,088	681,325			48	1,051,461	53,940
Restricted:							
Cash and Cash Equivalents (Note 3)	504,337		315,991		192,135	1,012,463	
Short Term Investments (Note 3)	354,193			82,626	296,971	733,790	
Loans and Contracts	5,455		41,177		7,150	53,782	
Receivables:							
Federal	248,181	3,993	802		23,994	276,970	
Other Intergovernmental	31,749					31,749	
Accounts	308,721		3,958	3,740	264,982	581,401	85,462
Interest and Dividends	128,420	37,961	20,406	3,169	14,410	204,366	57
Gifts	88,508					88,508	
Investment Trades	182,380					182,380	
Other	629,826				358	630,184	
Due From Other Funds (Note 12)	357,814	298			21,474	379,586	
Due From Component Units (Note 12)	15					15	
Interfund Receivable (Note 12)					74	74	
Inventories	86,305		94		14,263	100,662	
Prepaid Items	67,253				12,723	79,976	
Loans and Contracts	78,960	91,153			139,555	309,668	
Other Current Assets	139,697				2,519	142,216	
Total Current Assets	<u>6,788,476</u>	<u>1,021,188</u>	<u>411,497</u>	<u>89,535</u>	<u>1,618,546</u>	<u>9,929,242</u>	<u>198,647</u>
Non-Current Assets:							
Restricted:							
Cash and Cash Equivalents (Note 3)	76,880			221,128	5,417	303,425	
Short Term Investments (Note 3)	28,177			865,881		894,058	
Investments (Note 3)	13,380,721		535,014	971,590	3,263,743	18,151,068	
Receivables	20,617				469,428	490,045	
Loans and Contracts	101,732		1,586,049		760,801	2,448,582	
Other			12,485			12,485	
Loans and Contracts	22,381	2,815,912			3,668	2,841,961	
Investments (Note 3)	4,110,236				7,308	4,117,544	242,389
Gifts	159,516					159,516	
Capital Assets:							
Non-Depreciable	3,867,050		3,892	424,209	1,105	4,296,256	
Depreciable	13,770,282		42,251		17,595	13,830,128	
Accumulated Depreciation	(7,621,639)		(4,856)		(10,828)	(7,637,323)	
Assets Held in Trust	51,727				3,496	55,223	
Other Non-Current Assets	16,871	636		57,019	20,136	94,662	
Total Non-Current Assets	<u>27,984,551</u>	<u>2,816,548</u>	<u>2,174,835</u>	<u>2,539,827</u>	<u>4,541,869</u>	<u>40,057,630</u>	<u>242,389</u>
Total Assets	<u>34,773,027</u>	<u>3,837,736</u>	<u>2,586,332</u>	<u>2,629,362</u>	<u>6,160,415</u>	<u>49,986,872</u>	<u>441,036</u>

Concluded on the following page

State of Texas
Statement of Net Assets
Proprietary Funds (concluded)
August 31, 2003 (Amounts in Thousands)

August 31, 2003 (Amounts in Thousands)	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Funds*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts Payroll	\$ 975,756	\$ 105	\$ 7,775	\$ 26,868	\$ 221,738	\$ 1,232,242	\$390,443
Other Intergovernmental Federal	167,591				3,191	170,782	
Investment Trades	3,806					3,806	
Liabilities Payable from Restricted Assets (Note 5)**	62,028				312	62,340	
Due To Other Funds (Note 12)	504,000					504,000	
Interfund Payable (Note 12)							
Deferred Revenue							
Obligations/Securities Lending							
Employees' Compensable Leave (Note 5)							
Claims and Judgments (Note 5)							
Capital Lease Obligations (Note 5, 7)							
Notes and Loans Payable (Note 5)							
General Obligation Bonds Payable (Note 5, 6)							
Revenue Bonds Payable (Note 5, 6)							
Funds Held for Others							
Other Current Liabilities***							
Total Current Liabilities							
Non-Current Liabilities:							
Interfund Payable (Note 12)							
Deferred Revenue							
Employees' Compensable Leave (Note 5)							
Claims and Judgments (Note 5)							
Capital Lease Obligations (Note 5, 7)							
Notes and Loans Payable (Note 5)							
General Obligation Bonds Payable (Note 5, 6)							
Revenue Bonds Payable (Note 5, 6)							
Liabilities Payable From Restricted Assets (Note 5)							
Assets Held for Others****							
Other Non-Current Liabilities*****							
Total Non-Current Liabilities							
Total Liabilities							
NET ASSETS							
Invested in Capital Assets, Net of Related Debt							
Restricted for:							
Education							
Veterans Land Board Housing Programs							
Debt Retirement							
Capital Projects							
Funds Held as Permanent Investments:							
Nonexpendable							
Expendable							
Other							
Unrestricted							
Total Net Assets							

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

** Of the \$393,197, the current portion of Long-Term Liabilities is \$328,209, and is reported in Note 5, whereas \$64,988 is Current Liabilities.

*** Of the \$374,712, the current portion of Long-Term Liabilities is \$1,231, and is reported in Note 5, whereas \$373,481 is Current Liabilities.

**** Of the \$420,174, the non-current portion of Long-Term Liabilities is \$107,290, and is reported in Note 5, whereas \$312,884 is Non-Current Liabilities.

***** Of the \$98,361, the non-current portion of Long-Term Liabilities is \$95,206, and is reported in Note 5, whereas \$3,155 is Non-Current Liabilities.

State of Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Totals	Governmental Activities – Internal Service Funds*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds		
OPERATING REVENUES							
Lottery Collections	\$	\$	\$	\$	\$3,131,063	\$ 3,131,063	\$
Tuition Revenue	586,425					586,425	
Tuition Revenue - Pledged	1,385,029					1,385,029	
Discounts and Allowances	(361,578)					(361,578)	
Hospital Revenue - Pledged	3,292,698					3,292,698	
Discounts and Allowances	(1,620,079)					(1,620,079)	
Professional Fees	2,162,564					2,162,564	
Professional Fees - Pledged	9,653					9,653	
Discounts and Allowances	(1,409,801)					(1,409,801)	
Auxiliary Enterprises	93,865					93,865	
Auxiliary Enterprises - Pledged	592,724				71,333	664,057	
Discounts and Allowances	(18,766)					(18,766)	
Unemployment Taxes					1,603,241	1,603,241	
Other Sales of Goods and Services	62,600				366,025	428,625	
Other Sales of Goods and Services - Pledged	273,239		25,907			299,146	
Discounts and Allowances	(366)		(304)			(670)	
Interest and Investment Income	1,961	62,980	99,338		93,383	257,662	
Interest and Investment Income - Pledged	157	103,665				103,822	
Federal Revenue	1,785,626				663,269	2,448,895	
State Grant Revenue	244,766					244,766	
Premium Revenue					584,709	584,709	1,629,211
Other Operating Grant Revenue	413,489					413,489	
Other Revenues	36,790	3,002	99		175,781	215,672	1,280
Other Revenue - Pledged	381,758					381,758	
Total Operating Revenues	<u>7,912,754</u>	<u>169,647</u>	<u>125,040</u>	<u>0</u>	<u>6,688,804</u>	<u>14,896,245</u>	<u>1,630,491</u>
OPERATING EXPENSES							
Cost of Goods Sold	124,362				50,598	174,960	
Salaries and Wages	6,280,319	4,461			40,839	6,325,619	5,358
Payroll Related Costs	1,617,929	675			10,689	1,629,293	1,355
Professional Fees and Services	456,287	1,157	24,361		13,744	495,549	753
Travel	161,316	37	2		573	161,928	36
Materials and Supplies	1,044,193	95	870		3,155	1,048,313	517
Communication and Utilities	378,427	38			933	379,398	335
Repairs and Maintenance	241,925	56			1,344	243,325	534
Rentals and Leases	131,454	28	10		8,215	139,707	566
Printing and Reproduction	63,848	15	6		15,152	79,021	83
Depreciation and Amortization	551,961		1,880		1,924	555,765	
Unemployment Benefit Payments					2,961,709	2,961,709	
Bad Debt Expense	2,392	16			640	3,048	
Interest Expense	2,073	133,875	62,746		100,144	298,838	
Scholarships	515,229					515,229	
Lottery Prize Payments					1,845,198	1,845,198	
Employee/Participant Benefit Payments					1,012,904	1,012,904	1,627,057
Claims and Judgments	(30,127)					(30,127)	
Other Expenses	865,298	5,248	3,386		284,545	1,158,477	389
Total Operating Expenses	<u>12,406,886</u>	<u>145,701</u>	<u>93,261</u>	<u>0</u>	<u>6,352,306</u>	<u>18,998,154</u>	<u>1,636,983</u>
Operating Income (Loss)	<u>(4,494,132)</u>	<u>23,946</u>	<u>31,779</u>	<u>0</u>	<u>336,498</u>	<u>(4,101,909)</u>	<u>(6,492)</u>

Concluded on the following page

State of Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds (concluded)
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Totals	Governmental Activities – Internal Service Funds*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds		
NONOPERATING REVENUES (EXPENSES)							
Federal Revenue	\$ 30,413	\$ 98,943	\$ 802	\$ 14,128	\$ 1,095	\$ 144,286	\$ 363,134
Gifts	362,031		8				
Gifts - Pledged	47,157					47,157	
Land Income	4,499					4,499	
Interest and Investment Income (Loss)	1,693,886		14,031	(6,164)	48,900	1,750,653	12,777
Interest and Investment - Pledged	217,427					217,427	
Loan Premium and Fees on Securities Lending	137				2,027	2,164	484
Investing Activities Expense	(39,880)					(39,880)	
Interest Expense	(210,621)		(1,287)	(57)	(2,460)	(214,425)	
Borrower Rebates and Agent Fees	(1,123)		(397)		(1,761)	(3,281)	(383)
Gain (Loss) on Sale of Capital Assets	(35,421)				34	(35,387)	
Settlement of Claims					5	5	220
Claims and Judgments	(1,665)				(41)	(1,706)	
Other Revenues	120,295					120,295	
Other Expenses	(169,237)	(2,437)	4			(171,670)	
Total Nonoperating Revenues (Expenses)	2,017,898	96,506	13,161	7,907	47,799	2,183,271	13,098
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers							
	(2,476,234)	120,452	44,940	7,907	384,297	(1,918,638)	6,606
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS							
Capital Contributions - Federal	8,621					8,621	
Capital Contributions (Distributions) - Other	90,684		1,950	81,933	(237)	174,330	
Contributions to Endowments	235,997					235,997	
Extraordinary Items	36,532					36,532	
Transfer In (Note 12)	4,273,795	26,213	1,136		206,700	4,507,844	
Transfer Out (Note 12)	(214,800)	(48,948)	(19,753)		(1,123,370)	(1,406,871)	
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	4,430,829	(22,735)	(16,667)	81,933	(916,907)	3,556,453	0
Change in Net Assets	1,954,595	97,717	28,273	89,840	(532,610)	1,637,815	6,606
Net Assets, September 1, 2002	22,776,961	1,390,327	628,137	42,720	558,266	25,396,411	19,333
Restatements (Note 14)	(10,985)		29	9,718	38,792	37,554	
Net Assets, September 1, 2002, as Restated	22,765,976	1,390,327	628,166	52,438	597,058	25,433,965	19,333
Net Assets, August 31, 2003	\$24,720,571	\$1,488,044	\$656,439	\$142,278	\$ 64,448	\$27,071,780	\$ 25,939

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Totals	Governmental Activities – Internal Service Funds*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board	Texas Department of	Nonmajor Enterprise Funds		
			Loan Program Funds	Transportation Turnpike Authority			
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers	\$ 2,910,117	\$	\$ 24,695	\$	\$5,591,694	\$ 8,526,506	\$ 394,326
Proceeds from Tuition & Fees	1,437,731					1,437,731	
Proceeds from Research Grant & Contracts	2,942,199				660,771	3,602,970	
Proceeds from Gifts	1,066					1,066	
Proceeds from Loan Programs	163,702		810,165		140,867	1,114,734	
Proceeds from Auxiliaries	569,538					569,538	
Proceeds from Other Revenues	708,929		7,410		166,437	882,776	1,236,369
Payments to Suppliers for Goods and Services	(3,541,060)	(2,119)	(25,057)		(805,892)	(4,374,128)	(3,672)
Payments to Employees	(7,736,061)	(4,731)			(3,007,839)	(10,748,631)	(7,039)
Payments for Loans Provided	(150,074)		(564,843)		(190,579)	(905,496)	
Payments for Other Expenses	(590,237)	(36)	(2,770)		(1,897,288)	(2,490,331)	(1,596,414)
Net Cash Provided by Operating Activities	(3,284,150)	(6,886)	249,600	0	658,171	(2,383,265)	23,570
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Proceeds from Debt Issuance	52,000	58,995	100,290		443,941	655,226	
Proceeds from State Appropriations	3,350,704	4,098				3,354,802	
Proceeds from Gifts	353,324					353,324	
Proceeds from Endowments	179,764					179,764	
Proceeds from Transfers from Other Funds	459,810	152,804	160,051		4,679,048	5,451,713	
Proceeds from Grant Receipts	53,430	94,950				148,380	
Proceeds of Advances from Other Funds		20,000				20,000	
Proceeds from Other Financing Activities	302,286				1,071,152	1,373,438	
Proceeds from Contributed Capital	17,152					17,152	
Payments of Principal on Debt Issuance	(5,270)	(101,820)	(267,857)		(263,734)	(638,681)	
Payments of Interest	(113)	(134,638)			(97,302)	(232,053)	
Payments of Other Costs of Debt Issuance	(14)	(1,875)			(1,647)	(3,536)	
Payments for Transfers to Other Funds	(405,624)	(154,633)	(174,892)		(5,595,160)	(6,330,309)	
Payments for Grant Disbursements		(4,019)				(4,019)	
Payments for Advances to Other Funds		(29,275)				(29,275)	
Payments for Other Uses	(250,754)	(1,007)			(1,049,359)	(1,301,120)	
Net Cash Provided by Noncapital Financing Activities	4,106,695	(96,420)	(182,408)	0	(813,061)	3,014,806	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from Sale of Capital Assets	1,412				28	1,440	
Proceeds from Debt Issuance	1,647,730		4			1,647,734	
Proceeds from State Grants & Contracts	17,645					17,645	
Proceeds from Gifts	879					879	
Proceeds from Other Financing Activities	207		1,211	14,128		15,546	
Proceeds from Capital Contributions	99,735			65,535		165,270	
Proceeds of Advances from Other Funds	67,190					67,190	
Payments for Additions to Capital Assets	(1,689,191)		(1,211)	(243,864)	(1,027)	(1,935,293)	
Payments of Principal on Debt Issuance	(736,301)					(736,301)	
Payments for Capital Leases	(46,706)					(46,706)	
Payments of Interest on Debt Issuance	(138,088)			(88,201)		(226,289)	
Payments on Other Costs of Debt Issuance	(33,433)					(33,433)	
Net Cash Provided by Capital and Related Financing Activities	(808,921)	0	4	(252,402)	(999)	(1,062,318)	0

Concluded on the following page

State of Texas
Statement of Cash Flows
Proprietary Funds (concluded)
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Totals	Governmental Activities – Internal Service Funds*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds		
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from Sale of Investments	\$16,355,436	\$143,468	\$2,717,610	\$11,052,830	\$1,052,240	\$31,321,584	\$ 908,300
Proceeds from Interest and Investment Income	586,434	161,722	15,860	72,660	104,619	941,295	892
Proceeds from Principal Payments on Loans	5,311	269,480				274,791	
Payments to Acquire Investments	(16,365,077)	(492,891)	(2,597,094)	(10,935,259)	(1,021,149)	(31,411,470)	(906,400)
Net Cash Provided by Investing Activities	<u>582,104</u>	<u>81,779</u>	<u>136,376</u>	<u>190,231</u>	<u>135,710</u>	<u>1,126,200</u>	<u>2,792</u>
Net Increase (Decrease) in Cash and Cash Equivalents	595,728	(21,527)	203,572	(62,171)	(20,179)	695,423	26,362
Cash and Cash Equivalents, September 1, 2002	2,651,556	227,985	112,419	283,299	711,920	3,987,179	10,022
Restatements	<u>112,178</u>				<u>12,827</u>	<u>125,005</u>	
Cash and Cash Equivalents, September 1, 2002, as Restated	<u>2,763,734</u>	<u>227,985</u>	<u>112,419</u>	<u>283,299</u>	<u>724,747</u>	<u>4,112,184</u>	<u>10,022</u>
Cash and Cash Equivalents, August 31, 2003	<u>\$ 3,359,462</u>	<u>\$206,458</u>	<u>\$ 315,991</u>	<u>\$ 221,128</u>	<u>\$ 704,568</u>	<u>\$ 4,807,607</u>	<u>\$ 36,384</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
Operating Income (Loss)	\$ (4,494,132)	\$ 23,946	\$ 31,779	\$	\$ 336,498	\$ (4,101,909)	\$ (6,492)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Amortization and Depreciation	551,961		1,880		1,924	555,765	
Discounts and Allowances	2,392	16			640	3,048	
Operating Income and Cash Flow Categories Classification Differences	293,872	(31,016)	59,790		40,818	363,464	220
Changes in Assets and Liabilities:							
(Increase) Decrease in Receivables	56,812		3,309		(166,163)	(106,042)	(801)
(Increase) Decrease in Due From Other Funds	(854)					(854)	
(Increase) Decrease in Inventories	2,599				(626)	1,973	
(Increase) Decrease in Notes Receivable	(2,943)					(2,943)	
(Increase) Decrease in Loans and Contracts	1,387				(161,317)	(159,930)	
(Increase) Decrease in Other Assets	5,246		146,588		(463)	151,371	
(Increase) Decrease in Prepaid Expenses	(4,971)				(12,436)	(17,407)	
(Increase) Decrease in State Appropriations	2,097					2,097	
Increase (Decrease) in Payables	65,018	94	4,309		554,044	623,465	30,752
Increase (Decrease) in Deposits	(16,104)					(16,104)	
Increase (Decrease) in Due To Other Funds	(2,682)	74			185	(2,423)	(785)
Increase (Decrease) in Deferred Revenue	153,546				(5,310)	148,236	676
Increase (Decrease) in Compensated Absence Liability	37,383					37,383	
Increase (Decrease) in Other Liabilities	65,223		1,945		70,377	137,545	
Total Adjustments	<u>1,209,982</u>	<u>(30,832)</u>	<u>217,821</u>	<u>0</u>	<u>321,673</u>	<u>1,718,644</u>	<u>30,062</u>
Net Cash Provided by Operating Activities	<u>\$ (3,284,150)</u>	<u>\$ (6,886)</u>	<u>\$ 249,600</u>	<u>\$ 0</u>	<u>\$ 658,171</u>	<u>\$ (2,383,265)</u>	<u>\$ 23,570</u>
NON CASH TRANSACTIONS							
Net Change in Fair Value of Investments	\$ (1,371,194)	\$ 187	\$ 4,593	\$ 6,164	\$ (808)	\$ (1,361,058)	\$ (949)
Donation of Capital Assets	\$ (9,247)					\$ (9,247)	
Borrowing Under Capital Lease Purchase	\$ (2,144)					\$ (2,144)	
Other	\$ (56,492)					\$ (56,492)	

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Fiduciary Net Assets
August 31, 2003 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private- Purpose Trust Funds	Agency Funds	Totals
ASSETS					
Cash and Cash Equivalents (Note 3)	\$ 1,083,477	\$ 1	\$ 423,908	\$ 592,271	\$ 2,099,657
Securities Lending Collateral	11,326,731		149,635		11,476,366
Investments	95,984,995	11,279,593	1,746,267	1,361,890	110,372,745
Receivables:					
Other Intergovernmental				1,326	1,326
Interest and Dividends	307,979	12,363	5,259	21,102	346,703
Taxes				27	27
Investment Trades	1,492,520				1,492,520
Accounts				63,205	63,205
Other	200,583		31,841		232,424
Due From Other Funds (Note 12)	4,642		10,000	32	14,674
Properties, at Cost, net of Accumulated					
Depreciation	39,647		287		39,934
Other Assets	68		85,123	1,635,442	1,720,633
Total Assets	110,440,642	11,291,957	2,452,320	3,675,295	127,860,214
LIABILITIES					
Payables:					
Accounts	468,218	12,098	32,555	10,050	522,921
Other Intergovernmental				507,015	507,015
Payroll	1,582		97,814		99,396
Investments Trades	2,481,175	99,500			2,580,675
Deferred Revenue	27,962		98		28,060
Due To Other Funds (Note 12)	48,310		2,368	6,307	56,985
Interfund Payable (Note 12)				36	36
Employees' Compensable Leave	3,665		44		3,709
Capital Lease Obligations	6				6
Obligations/Securities Lending	11,326,731		149,635		11,476,366
Funds Held for Others			85,202	3,151,887	3,237,089
Total Liabilities	14,357,649	111,598	367,716	3,675,295	18,512,258
NET ASSETS					
Held in Trust for:					
Pension Benefits and Other	96,082,993				96,082,993
Employees' Post Employment Healthcare Benefits			(82,967)		(82,967)
Individuals, Organizations, and Other Governments			2,167,571		2,167,571
Pool Participants		11,180,359			11,180,359
Total Net Assets	\$ 96,082,993	\$ 11,180,359	\$ 2,084,604	\$ 0	\$ 109,347,956

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private- Purpose Trust Funds	Totals
ADDITIONS				
Contributions:				
Member Contributions	\$ 2,097,777	\$	\$	\$ 2,097,777
State Contributions	310,347			310,347
Transfers In of Contributions (Note 12)	1,239,465			1,239,465
Other Contributions	183,016			183,016
Total Contributions	<u>3,830,605</u>	<u>0</u>	<u>0</u>	<u>3,830,605</u>
Investment Income:				
From Investing Activities:				
Net Appreciation in				
Fair Value of Investments	6,667,036		150,436	6,817,472
Interest and Investment Income	2,675,614	189,145	51,862	2,916,621
Total Investing Income	<u>9,342,650</u>	<u>189,145</u>	<u>202,298</u>	<u>9,734,093</u>
Less Investing Activities Expense	15,046	6,726	64	21,836
Net Income from Investing Activities	<u>9,327,604</u>	<u>182,419</u>	<u>202,234</u>	<u>9,712,257</u>
From Securities Lending Activities:				
Securities Lending Income	149,698			149,698
Less Securities Lending Expense:				
Borrower Rebates	113,006			113,006
Management Fees	6,710			6,710
Net Income from Securities Lending	<u>29,982</u>	<u>0</u>	<u>0</u>	<u>29,982</u>
Total Net Investment Income	<u>9,357,586</u>	<u>182,419</u>	<u>202,234</u>	<u>9,742,239</u>
Capital Share and Individual Account Transactions:				
Net Increase in Participant Investments		<u>779,657</u>		<u>779,657</u>
Other Additions:				
Federal Revenue			1,409	1,409
Contributions to Employee Benefit Funds			212,088	212,088
Settlement of Claims			182,717	182,717
Other Revenue	195		313,157	313,352
Transfer In (Note 12)	56,004		870,886	926,890
Total Other Additions	<u>56,199</u>	<u>0</u>	<u>1,580,257</u>	<u>1,636,456</u>
Total Additions	<u>13,244,390</u>	<u>962,076</u>	<u>1,782,491</u>	<u>15,988,957</u>
DEDUCTIONS				
Benefits	5,891,172		592,042	6,483,214
Refunds of Contributions	259,675			259,675
Transfer Out (Note 12)	33,209		108,408	141,617
Intergovernmental Payments			752,910	752,910
Administrative Expenses	<u>54,362</u>		<u>167,995</u>	<u>222,357</u>
Total Deductions	<u>6,238,418</u>	<u>0</u>	<u>1,621,355</u>	<u>7,859,773</u>
INCREASE IN NET ASSETS	<u>7,005,972</u>	<u>962,076</u>	<u>161,136</u>	<u>8,129,184</u>
NET ASSETS				
Net Assets, September 1, 2002	89,077,021	10,253,960	1,951,254	101,282,235
Restatements (Note 14)		(35,677)	(27,786)	(63,463)
Net Assets, September 1, 2002, as Restated	<u>89,077,021</u>	<u>10,218,283</u>	<u>1,923,468</u>	<u>101,218,772</u>
Net Assets, August 31, 2003	<u>\$ 96,082,993</u>	<u>\$ 11,180,359</u>	<u>\$ 2,084,604</u>	<u>\$109,347,956</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas

Index for Notes to Financial Statements

For the Fiscal Year Ended August 31, 2003

	Page
NOTE 1 – Summary of Significant Accounting Policies	59
NOTE 2 – Capital Assets	67
NOTE 3 – Deposits, Investments, and Repurchase Agreements	70
NOTE 4 – Short-Term Debt: Tax and Revenue Anticipation Notes	74
NOTE 5 – Long-Term Liabilities	75
NOTE 6 – Bonded Indebtedness.....	77
NOTE 7 – Capital Leases	89
NOTE 8 – Operating Leases.....	90
NOTE 9 – Retirement Systems.....	90
NOTE 10 – Deferred Compensation.....	97
NOTE 11 – Postemployment Health Care and Life Insurance Benefits.....	97
NOTE 12 – Interfund Activity and Transactions	98
NOTE 13 – Governmental Fund Balances – Reserved, Unreserved/Designated and Unreserved/Undesignated	102
NOTE 14 – Adjustments to Fund Balances/Net Assets	103
NOTE 15 – Contingent Liabilities	104
NOTE 16 – Subsequent Events.....	105
NOTE 17 – Risk Management	106
NOTE 18 – Contested Taxes	107
NOTE 19 – Component Units and Related Organizations	107
NOTE 20 – Deficit Fund Balance/Net Assets.....	110
NOTE 21 – Tobacco Settlement	111
NOTE 22 – Donor-Restricted Endowments	111
NOTE 23 – Extraordinary Items	112
NOTE 24 – Taxes Receivable	112

Note 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying basic financial statements of the State of Texas have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Governmental Accounting Standards Board has issued Statement No. 38 *Certain Financial Statement Note Disclosures*. The state fully implemented statement No. 38 in fiscal year 2003. GASB also issued a Proposed GASB Technical Bulletin *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*. The state has revised its derivative disclosures in accordance with this proposed Technical Bulletin. Financial reporting for the state is based on all GASB pronouncements, as well as FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the State of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities, and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range

of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general administrative services, and employee benefits.

The reporting entity for the state is in accordance with the criteria established by the Governmental Accounting Standards Board. A listing and brief summary of the component units and their relationship to the State of Texas is discussed in Note 19. These financial statements present the State of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The

state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.



FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* focuses on the

state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), as well as its discretely presented component

units. Certain general government administrative overhead expenses have been allocated as direct expenses to the various functions of the state.

In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, which incorporates non-current investments, capital assets as well as long-term debt and obligations.

The government-wide statement of activities reflects both the gross and net cost per functional category (public safety, transportation, etc.), which is otherwise supported by general government revenues (sales, use, franchise taxes etc.). In the statement of activities, program revenues are netted within program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function, or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues.

Program revenues include (a) charges for services, (b) operating grants and contributions, and (c) capital grants and contributions. Charges for services include special assessments, and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The state's fiduciary funds are presented in the fund financial statements by type (pension, investment trust, private-purpose, and agency). The assets of the fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the government-wide statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental funds and proprietary funds, assets and liabilities are presented in a classified format, which distinguishes between

all current and long-term assets and liabilities. In fiduciary funds, assets and liabilities are presented in order of relative liquidity. Current assets in the governmental funds are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables, and short-term investments. All other assets are considered non-current. Current liabilities in the governmental funds are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements, (b) the source and use of financial resources, and (c) how the state's actual experience conforms to the budget. Since the governmental fund statements are presented using a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which explains the adjustments required to restate the fund-based financial statements for the government-wide governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special Revenue Funds account for specific revenue proceeds, which are legally restricted for specific purposes. Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Capital Projects Funds account for financial resources used for the acquisition, repair, renovation, or construction of major capital facilities other than

those financed by proprietary or similar trust funds. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below:

The **General Fund** is the principal operating fund used to account for most of the state's general activities. Included are transactions for general government, education, employee benefits, health and human services, public safety and corrections, transportation, natural resources and recreational services, and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, and monitoring of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are deposited to the credit of the Available School Fund.

Proprietary Fund Types

Proprietary Funds focus on determining operating income, changes in net assets, financial position, and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are Enterprise Funds and an Internal Service Fund.

Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity;
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges;
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal Service Funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The **Employees Life, Accident, and Health Insurance Benefits Fund**, presented on the proprietary fund statements, is used to account for the services provided by the Group Insurance program to other agencies of the reporting entity.

The state's major Enterprise Funds are listed below:

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University, and Texas State Technical College. They are represented as a single column in the proprietary fund financial statements, and individually in the Combining Statement-Colleges and Universities in the Other Supplementary Information section of this report.

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds, and water pollution control revolving funds, which issue bonds to provide assistance to political subdivisions.

The **Veterans' Land Board Loan Program Funds** receive proceeds from the sale of bonds that are used to administer, originate, and service loans for land, housing, and home improvement for those qualifying veterans.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase (referred to as the "2002 Project") of the Central Texas Turnpike System.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the state, in either a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private-purpose trust fund is used.

Pension and Other Employee Benefit Trust Funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9. The state's deferred compensation plan, established under Internal Revenue Code (IRC) Section 457, Deferred Compensation Plans of State and Local Governmental Employers, is accounted for under the requirements of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* as amended by GASB Statement No. 34. This plan is also reported as a Pension and Other Employee Benefit Trust Fund.

Investment Trust Funds report the external portions of investment pools reported by the sponsoring government.

Private-Purpose Trust Funds report all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

Agency Funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, cash and cash equivalents, investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Component Units

All of the Component Units for the State of Texas are reported as non-major Component Units. Combining Statements of Net Assets and Statement of Activities are presented for all of the discrete Component Units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS, AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources, and obligations of the reporting government, both current and non-

current, are reported in the government-wide statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter. Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the full accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures. Proprietary fund types, pension trust funds, investment trust funds, private-purpose trust funds, and agency funds are reported on the accrual basis of

accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

The State Constitution requires the State Comptroller to submit a Biennial Revenue Estimate to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Constitution also requires the State Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The state's budget is prepared on a cash basis. The State Constitution limits appropriation bills to two years. The Legislative Budget Board is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue not dedicated by the Constitution that is available for spending for the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and Legislative Budget Board (LBB) initiate the process by submitting budget requests to the Legislature. At final passage of the Appropriations Bill by the Legislature, it is sent to the State Comptroller for certification. If the State Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the Governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The Governor has the option of

vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the Governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The State Comptroller is responsible for controlling, accounting, and reporting expenditures in accordance with the expenditure budgets.

The level of legal control for the budget is established at the Strategy (line item) level by agency. For example, "Highway Patrol", "Driver Licenses & Records", and "Vehicle Inspection" are three of the strategies for the Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 25 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the "Appropriation Summary Report" available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line-item (Strategy) for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the Governor may authorize additional appropriations from deficiency and emergency appropriation reserves. Supplemental (Emergency) Appropriations of \$10,802,116 were approved during fiscal year 2003 to provide sufficient funding for several agencies. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

The Budgetary Comparison Schedule, in the Required Supplementary Information Other Than MD&A, presents the original budget, the final budget and the actual budget of the major governmental funds. A reconciliation for the General Fund and the State Highway Fund budgetary basis to the GAAP basis is presented as Required Supplementary Information with explanations of the reconciling items.

Budgetary information for non-major governmental funds is presented as Other Supplementary Information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in local banks, cash in the Treasury, and cash equivalents. Cash in local banks is primarily held by Special Revenue Funds, Enterprise Funds, Pension Trust Funds, and Component Units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division - Comptroller's office. Interest earned is deposited in the General Revenue Fund and specified funds designated by law.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for Securities Lending are not included as cash equivalents on the Statement of Cash Flows.

Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. However, certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities. The expendable portion of the Permanent School Fund earnings is assigned to the Available School Fund. The amount of interest allocated to the Available School Fund is \$780.4 million. The nature and purpose of derivative transactions and the descriptions of exposure to credit risk, market risk, and legal risk can be found in Note 3.

Receivables and Payables

The major receivable for governmental activities and business-type activities are taxes and tuition, respectively. See Note 24 for details on Taxes Receivable. All receivables are shown net of uncollectible amounts. Other Receivables consist primarily of receivables from private sponsored programs.

Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Non-Current Interfund Receivables/Payables between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Trade Receivables are reported for sales of investments pending settlement. Trade Payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held

in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, trust funds, and government-wide financial statements. Capital assets are defined by the state as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Detailed information of capital assets can be found in Note 2.

GASB Statement No. 34 allows an alternative (modified) approach which reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state has elected to use this option for its highway infrastructure. The state has developed and implemented an asset management system that establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in the Required Supplementary Information section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net assets requires two components: (a) the amount due in one year (current), and (b) the amount due in more than one year (non-current).

General long-term liabilities consist of the non-current portion of capital lease obligations, compensable leave, claims and judgments, and other non-current liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include non-current liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and dis-

counts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities. GASB Statement No. 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the employee if both the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of 8 to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime, under the federal Fair Labor Standards Act (FLSA) and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at 1.5 hours x overtime hours worked), for non-exempt, non-emergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in

full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and non-current liabilities for each employee since it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is non-transferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of 8 hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. However, the probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 7 provides the details for capital lease obligations.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Net Assets

Invested in Capital Assets, Net of Related Debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of Invested in Capital Assets, Net of Related Debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.

Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt or Restricted Net Assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fund Balance Reserve and Designated Fund balances for governmental funds are classified to reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents the disaggregating of fund balances.

Interfund Activity and Transactions – Government-Wide Financial Statement

GASB Statement No. 34 established a classification system with terms and definitions for interfund activity, and modified requirements for reporting transfers.

Interfund Activity

As a general rule the effect of interfund activity has been eliminated from the government-wide statements with the exception of activities between governmental activities

and business-type activities. Interfund activity with Fiduciary funds has been reclassified and reported as external activity.

Interfund Balances

Interfund payables and receivables have been eliminated from the statement of net assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets. Interfund activities between the primary government and component units with a different year-end are limited and immaterial. Note 12 provides the details of interfund activities and transactions.

Risk Financing

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers’ compensation and unemployment compensation claims and funds the liabilities on a pay-as-you-go basis. The state’s group insurance program is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. For additional information, see Note 17.

**Note 2
Capital Assets**

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, depreciation is reported on all “exhaustible” assets. “Inexhaustible assets” such as works of art, historical treasures, and professional, academic and research library books and materials are not depreciated. However, books and materials purchased but not used in a library are considered “exhaustible” assets. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows:

Capitalization of Assets		
Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	\$ 0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Construction in Progress	0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Other Capital Assets		
(Leasehold Improvements and Livestock)	Various	0-22 years
Facilities and Other Improvements	100,000	10-60 years

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, historical costs have been estimated. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

Most land improvements (infrastructure) including curbs, sidewalks, fences, bridges, and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB Statement No. 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental

activities in accordance with GASB Statement No. 37. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The following schedule presents the composition of the State's capital assets, adjustments, reclassifications, additions, and deletions during fiscal year 2003. The reclassifications column shows completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during the current year.

Capital Asset Activity

For the Year Ended August 31, 2003 (In Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/02	Adjustments*	Reclassifications	Additions	Deletions	Balance 8/31/03
GOVERNMENTAL ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	\$ 5,202,129	\$ (4,103)	\$ 3,269	\$ 267,304	\$ (4,255)	\$ 5,464,344
Infrastructure	33,222,319		866,820			34,089,139
Construction in Progress	1,931,484	(16,815)	(1,736,979)	2,160,308		2,337,998
Other Capital Assets	195,488	317	579	1,675	(355)	197,704
Total Non-Depreciable Assets	40,551,420	(20,601)	(866,311)	2,429,287	(4,610)	42,089,185
Depreciable Assets						
Buildings and Building Improvements	4,820,633	1,036	25,151	37,209	(3,286)	4,880,743
Infrastructure	13,106,252		837,331	14,628	(26,807)	13,931,404
Facilities and Other Improvements	164,219	272	2,029	5,767	(170)	172,117
Furniture and Equipment	946,054	(820)	(21,165)	111,769	(64,455)	971,383
Vehicles, Boats & Aircraft	817,664	12	(492)	54,115	(42,737)	828,562
Other Capital Assets	21,031	(32)	(434)	3,104		23,669
Total Depreciable Assets at Historical Cost	19,875,853	468	842,420	226,592	(137,455)	20,807,878
Less Accumulated Depreciation for:						
Buildings and Improvements	(1,927,765)	45,334	4,270	(149,077)	1,920	(2,025,318)
Infrastructure	(6,776,693)			(450,980)	26,807	(7,200,866)
Facilities and Other Improvements	(85,228)	(177)	94	(6,622)	170	(91,763)
Furniture and Equipment	(683,999)	(148)	135	(80,324)	60,451	(703,885)
Vehicles, Boats & Aircraft	(479,936)	1,799	748	(57,561)	38,381	(496,569)
Other Capital Assets	(4,103)	1,081		(1,561)		(4,583)
Total Accumulated Depreciation **	(9,957,724)	47,889	5,247	(746,125)	127,729	(10,522,984)
Depreciable Assets, Net	9,918,129	48,357	847,667	(519,533)	(9,726)	10,284,894
Governmental Activities Capital Assets, Net	\$ 50,469,549	\$ 27,756	\$ (18,644)	\$ 1,909,754	\$ (14,336)	\$ 52,374,079

* The adjustments column includes assets that were not previously reported, accounting errors, and other changes.

** Depreciation expense was charged to governmental functions as follows:

General Government	\$ 48,459
Education	6,162
Employee Benefits	
Health & Human Services	37,778
Public Safety & Corrections	137,846
Transportation	492,240
Natural Resources & Recreation	20,960
Regulatory	2,680
Total Governmental Activities Depreciation Expense	\$ 746,125

Concluded on the following Page

Capital Asset Activity (concluded)

For the Year Ended August 31, 2003 (In Thousands)

	Balance 9/1/02	Adjustments*	Reclassifications	Additions	Deletions	Balance 8/31/03
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	\$ 466,826	\$ 9,949	\$ 3,376	\$ 145,775	\$ (1,468)	\$ 624,458
Construction in Progress	1,753,940	43,851	(209,262)	786,008	(24,208)	2,350,329
Other Capital Assets	1,261,670	(14,085)	(27)	74,756	(845)	1,321,469
Total Non-Depreciable Assets	3,482,436	39,715	(205,913)	1,006,539	(26,521)	4,296,256
Depreciable Assets						
Buildings and Building Improvements	8,810,620	86,179	162,782	592,690	(32,084)	9,620,187
Infrastructure	487,797	(10,570)	16,331	16,730	(748)	509,540
Facilities and Other Improvements	696,964	(24,995)	7,000	98,813	(1,590)	776,192
Furniture and Equipment	2,520,501	(63,053)	29,423	293,102	(148,341)	2,631,632
Vehicles, Boats & Aircraft	168,290	(157)	(193)	12,148	(8,900)	171,188
Other Capital Assets	64,032	34,463	174	22,876	(156)	121,389
Total Depreciable Assets at Historical Cost	12,748,204	21,867	215,517	1,036,359	(191,819)	13,830,128
Less Accumulated Depreciation for						
Buildings and Improvements	(4,755,804)	(115,302)	5,414	(259,234)	19,754	(5,105,172)
Infrastructure	(292,665)	(5,849)	2,497	(16,050)	748	(311,319)
Facilities and Other Improvements	(324,720)	(1,879)	693	(25,981)	1,590	(350,297)
Furniture and Equipment	(1,695,454)	108,165	408	(233,941)	101,759	(1,719,063)
Vehicles, Boats & Aircraft	(110,122)	(1,999)	86	(14,040)	8,123	(117,952)
Other Capital Assets	(28,100)	519	(58)	(5,936)	55	(33,520)
Total Accumulated Depreciation***	(7,206,865)	(16,345)	9,040	(555,182)	132,029	(7,637,323)
Depreciable Assets, Net	5,541,339	5,522	224,557	481,177	(59,790)	6,192,805
Business-Type Activities Capital Assets, Net	\$ 9,023,775	\$ 45,237	\$ 18,644	\$ 1,487,716	\$ (86,311)	\$ 10,489,061
COMPONENT UNITS						
Non-Depreciable Assets						
Land and Land Improvements	\$ 208	\$	\$	\$ 3,315	\$	\$ 3,523
Construction in Progress	133	1,450		4,283	(2,557)	3,309
Other Capital Assets						
Total Non-Depreciable Assets	341	1,450	0	7,598	(2,557)	6,832
Depreciable Assets						
Buildings and Building Improvements	18,284			29,251	(15)	47,520
Infrastructure						
Facilities and Other Improvements	2,204			6	(1,918)	292
Furniture and Equipment	31,760	528		13,680	(1,496)	44,472
Vehicles, Boats & Aircraft	21,499			7,010	(1,917)	26,592
Other Capital Assets	9,800			596	(7,055)	3,341
Total Depreciable Assets at Historical Cost	83,547	528	0	50,543	(12,401)	122,217
Less Accumulated Depreciation for						
Buildings and Improvements	(6,100)			(2,380)	3	(8,477)
Infrastructure						
Facilities and Other Improvements	(1,591)	1,405		(6)	28	(164)
Furniture and Equipment	(17,680)	(6,109)		(4,285)	987	(27,087)
Vehicles, Boats & Aircraft	(8,259)			(4,824)	496	(12,587)
Other Capital Assets	(5,932)	4,387		(170)		(1,715)
Total Accumulated Depreciation	(39,562)	(317)	0	(11,665)	1,514	(50,030)
Depreciable Assets, Net	43,985	211	0	38,878	(10,887)	72,187
Component Units Capital Assets, Net	\$ 44,326	\$ 1,661	\$ 0	\$ 46,476	\$ (13,444)	\$ 79,019

* The adjustments column includes assets that were not previously reported, accounting errors, and other changes.

*** Depreciation was charged to business-type functions as follows.

Colleges and Universities	\$ 551,961
Veterans Land Board	1,880
Other	1,341
Total Business-Type Activities Depreciation Expense	\$ 555,182

Note 3

Deposits, Investments, and Repurchase Agreements

LEGAL AND CONTRACTUAL PROVISIONS

Authority for Investments

All monies in funds established in the Treasury Operations Division - Comptroller's office (Treasury) by the State Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States, obligations of various federal credit organizations, bankers' acceptances, commercial paper and contracts written by the Comptroller which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during, and at the end of the day. The Trust Company met those requirements throughout fiscal year 2003. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions, and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, as well as colleges and universities, are authorized to invest funds not deposited with the Treasury. Allowable investments at the four largest investing entities are summarized below:

- The Teacher Retirement System is authorized to make investments following the "prudent person rule." Categories of permissible investments include stocks, obligations, mortgages, cash equivalents, and alternative investments including the Texas Growth Fund.
- The Texas Education Agency may make investments under the "prudent person rule." Authorized investments include fixed income securities including U.S. or foreign treasury or government agency obligations,

U.S. or foreign corporate bonds, asset or mortgage backed securities, equities including U.S. or foreign stocks and bonds, debentures and investment trusts, money market funds, commercial paper, U.S. or foreign bank time deposits, bankers' acceptances, and fully collateralized repurchase agreements.

- The Employees Retirement System, with certain restrictions, may make investments under the "prudent person rule." Authorized investments include domestic equities, equities of companies domiciled in countries outside of the United States, and U.S. dollar denominated fixed income and short-term securities.
- Most investments held by the University of Texas System are maintained in pools or "funds." The primary standard for making investment decisions for all of these funds is the "prudent investor rule." Investments authorized, with certain restrictions, include common and preferred stock, corporate obligations, commercial paper, bankers' acceptances, repurchase agreements, U.S. Government and Agency Obligations, bonds of the State of Texas and political subdivisions, University of Texas or Texas A&M University bonds or notes, and unaffiliated investment funds.

Fair Value Reporting

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* require defined benefit pension plans and governmental entities, respectively, to report investments at fair value as of the balance sheet date and to reflect the changes in the fair value of investments as revenue in the operating statements.

The fair value of the state's investments is determined from quoted market prices. Governmental entities other than external investment pools may report money market investments at amortized cost which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected

by the impairment of the credit standing of the issuer or by other factors.

Additionally, GASB Statement 31 requires the state to report its external investment pool, TexPool, as an investment trust fund. A separate report for the Pool can be obtained from the Comptroller of Public Accounts.

Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by the pledging, to the Treasury, of securities valued at market excluding accrued interest to the Treasury. Generally, the list of eligible securities includes all United States Treasury Obligations, and most Agency Obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank domiciled in the state, any Federal Reserve Bank or one of its branches, the Texas Treasury Safekeeping Trust Co., any Federal Home Loan Bank or in

the vault of the Treasury. During fiscal year 2003, no depository holding state funds failed.

State agencies and institutions of higher education, with deposits of public funds that are not managed by the Treasury, are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law. However, retirement systems are exempt by statute from this requirement.

Deposits

At August 31, 2003, the carrying amount of deposits for the state and its component units was \$1.3 billion. This amount consists of all cash in local banks and a portion of short-term investments. This amount is included on the Combined Balance Sheet as part of the "Cash and Cash Equivalents" account.

The local bank balances for the state and its component units were \$1.5 billion. This amount is reported using the following categories of credit risk.

Cash and Cash Equivalents August 31, 2003 (In Thousands)			
	Governmental and Business-Type	Fiduciary	Component
Unrestricted Cash and Cash Equivalents			
Cash on Hand	\$ 16,871	\$ 11,953	\$ 1,729
Cash In Transit	26,745		
Cash in Local Banks	94,802	37,460	87,911
Cash & Investments Held by Treasury	3,931,472	1,642,784	19,658
Cash Equivalents	<u>2,275,001</u>	<u>407,460</u>	<u>119,435</u>
Total Unrestricted Cash and Cash Equivalents	<u>6,344,891</u>	<u>2,099,657</u>	<u>228,733</u>
Current Restricted Cash and Cash Equivalents			
Cash on Hand	\$ 2,344	\$	\$
Cash in Local Banks	56,918		
Cash & Investments Held by Treasury	28,752		
Cash in Federal Treasury	954		
Cash Equivalents	<u>926,664</u>		<u>29</u>
Total Current Restricted Cash and Cash Equivalents	<u>1,015,632</u>	<u>0</u>	<u>29</u>
Noncurrent Restricted Cash and Cash Equivalents			
Cash in Local Banks	\$ 3,681	\$	\$
Cash & Investments Held by Treasury	2,274		
Cash Equivalents	<u>298,484</u>		<u>623</u>
Total Noncurrent Restricted Cash and Cash Equivalents	<u>304,439</u>	<u>0</u>	<u>623</u>
Total Cash and Cash Equivalents	<u><u>\$7,664,962</u></u>	<u><u>\$2,099,657</u></u>	<u><u>\$ 229,385</u></u>

Category 1: Fully insured by the FDIC or collateralized with securities held by the state or by the state's agent in the state's name, \$897 million.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the state's name, \$37 million.

Category 3: Either not collateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the state's name, \$595 million.

The carrying amount of deposits for component units that are presented discretely in the financial statements was \$88 million and the bank balance was \$85 million. These component units were audited by external auditors. These deposits are included above and consist of \$28 million in Category 1, and \$57 million in Category 3. The component units had no bank deposits in Category 2. The Cash and Cash Equivalents account, including component units, is composed of the amounts as presented on the previous page.

Investments

The schedules shown on the following page disclose the carrying value and fair value of the state's investments by type and category of credit risk. The first schedule discloses the investments held by the Primary Government. The second schedule discloses the investments held by component units that are presented discretely in the financial statements. The categories of credit risk are as follows:

- A. Insured or registered, or securities held by the state or its agent in the state's name.
- B. Uninsured and unregistered, with securities held by the counterparty trust department or agent in the state's name.
- C. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the state's name.

Certain investments in mutual funds cannot be categorized because they are not evidenced by securities that exist in physical or book-entry form.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Texas Treasury Safekeeping Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested by the state in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

The Treasury's aggregate amount of reverse repurchase agreement obligations at August 31, 2003 was \$174,321,087 including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$173,761,857. Therefore, the Treasury had no credit exposure at year end.

Securities Lending

The Texas Education Agency (TEA), the Teacher Retirement System (TRS), the University of Texas System (UT), the Texas A&M University System (A&M), the Employees Retirement System (ERS), the General Land Office and Veterans' Land Board (GLO/VLB), the Texas Prepaid Higher Education Tuition Board (TPHETB) and the Texas Treasury Safekeeping Trust Company (TTSTC) participate in a securities lending program as authorized by state statute. Under this program, the governmental entities transfer securities to an independent broker or dealer in

Investments Held by Primary Government (In Thousands)

	Category A	Category B	Category C	Carrying Value*	Fair Value**
U.S. Government Investments	\$ 28,748,214	\$ 22,777	\$ 5,245,463	\$ 34,016,454	\$ 34,030,134
Collateralized Mortgage Obligations	3,572,730			3,572,730	3,572,730
Corporate Stock	57,228,887	4,595	2,616,919	59,850,401	59,850,401
Corporate Obligations	9,979,111		928,167	10,907,278	10,907,278
Political Subdivision Bonds	126,748			126,748	126,748
Repurchase Agreements	8,781,703	111,074	11,687	8,904,464	8,904,464
Foreign Securities	17,035,103		1,292,612	18,327,715	18,327,715
Commercial Paper	857,010		1,055,249	1,912,259	1,912,259
Other Investments	135,441	3,944		139,385	139,385
Total Categorized Investments	<u>\$126,464,947</u>	<u>\$ 142,390</u>	<u>\$ 11,150,097</u>	<u>\$137,757,434</u>	<u>\$137,771,114</u>
Uncategorized Investments:					
Investments Held by Broker-Dealers:					
Under Reverse Repurchase Agreements				174,280	174,280
Under Securities Lending				14,038,473	14,038,473
Securities Lending Collateral Investment Pool				802,580	802,580
Real Estate and Mortgages				1,246,033	1,246,033
Other Uncategorized Investments				24,039,881	24,039,881
Total Investments Held by Primary Government				<u>\$178,058,681</u>	<u>\$178,072,361</u>

* The difference in the total carrying amount of investments and that on the combined balance sheet represents the current portion of investments that is included in Cash and Cash Equivalents.

** Pension trust fund investments are reported at fair value, as required by GASB Statement 25.
Other investments are reported at fair value, as required by GASB Statement 31.

Investments Held by Discrete Component Units August 31, 2003 (In Thousands)

	Category A	Category B	Category C	Carrying Value*	Fair Value**
U.S. Government Investments	\$ 379,708	\$	\$	\$ 379,708	\$ 379,708
Political Subdivision Bonds	28,294			28,294	28,294
Repurchase Agreements	23,067			23,067	23,067
Other Investments	1,508			1,508	1,508
Total Categorized Investments	<u>\$ 432,577</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 432,577</u>	<u>\$ 432,577</u>
Uncategorized Investments				165,303	165,303
Total Investments Held by Discrete Component Units				<u>\$ 597,880</u>	<u>\$ 597,880</u>

* The difference in the total carrying amount of investments and that on the combined balance sheet represents the current portion of investments that is included in Cash and Cash Equivalents.

** Investments are reported at fair value, as required by GASB Statement 31.

exchange for collateral in the form of cash, governmental securities, or bank letters of credit. In addition, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent. ERS receives collateral in the form of cash or U.S. Government or Agency securities equal to 100% of the fair value plus accrued income on its loaned securities. TEA, TRS, UT, GLO/VLB and TPHEB receive collateral equal to 102% of the fair value plus accrued income for domestic corporate securi-

ties and 105% of the fair value for international securities on loan. TEA receives collateral in excess of 100% of the fair value plus accrued interest for domestic governmental securities. A&M receives collateral at least equal to 102% of the fair value of its loaned securities. TTSTC receives collateral equal to 100% of the fair value plus accrued interest on its loaned securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify the state if the borrowers fail to return the securities.

At year end there was no credit risk exposure to the state because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state. The relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements for TRS, ERS, A&M, TPHEB and TTSTC. GLO/VLB and TTSTC loans are terminable at will, UT manages its investments to maintain an average maturity and overnight liquidity, and TEA maturities are defined by the lending agreement. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

The state's aggregate amount of securities out on loan to broker-dealers at August 31, 2003 was \$17.8 billion. The Teacher Retirement System began their securities loan program in February 1991 and had \$11.7 billion of securities out on loan to broker-dealers at August 31, 2003. The Employees Retirement System began their program in July 1991 and had securities of \$3.1 billion out on loan to broker-dealers at August 31, 2003. The University of Texas System began their program in September 1995 and had securities of \$245 million out on loan to broker-dealers at August 31, 2003. The Texas Education Agency began their program in February 1993 and had securities of \$2.1 billion out on loan to broker-dealers at August 31, 2003. The Texas A&M University System began their program in 1993 and had securities of \$193 million out on loan to broker-dealers at August 31, 2003. The General Land Office/Veteran's Land Board began their program in February 1999 and had securities of \$34 million out on loan to broker-dealers at August 31, 2003. The Texas Prepaid Higher Education Tuition Board began their program in September 2001 and had securities of \$136 million out on loan to broker-dealers at August 31, 2003. The Texas Treasury Safekeeping Trust Company began their program in 2003 and had securities of \$269 million on loan to broker-dealers at August 31, 2003.

Derivatives

Derivatives are financial instruments (securities or contracts) whose value is linked to, or "derived" from changes in interest rates, currency rates, and stock and commodity prices. Derivatives cover a broad range of financial instruments, such as forwards, futures, options, swaps, and mortgage derivatives.

Texas agencies and universities invest in mortgage derivatives. These mortgage derivatives are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, Planned Amortization Class (PACs) and Collateralized Mortgage Obligations (CMOs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. Texas agencies and universities had total investments in derivatives with both carrying and fair value of \$4.5 billion or 2.5% of the carrying value and 2.5% of the fair value of the state's total investments as of August 31, 2003. Several smaller universities also hold mortgage derivatives that are high risk. The majority of these investments were purchased prior to fiscal year 1995.

In 1995, the Texas Legislature took steps to limit state entities' and local governments' ability to invest in high risk derivatives by amending the Public Funds Investment Act. These statutory limitations do not apply to certain funds, such as public retirement systems, funds invested by the Treasury, institutions of higher education having total endowments of at least \$95 million, and funds invested by the Veteran's Land Board.

Note 4

Short-Term Debt: Tax and Revenue Anticipation Notes

On August 20, 2002 (with an issue date of August 29, 2002), \$5.8 billion in the State of Texas Tax and Revenue Anticipation Notes, Series 2002, were sold to coordinate the cash flow of the state for the fiscal year ended August 31, 2003. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the

General Revenue Fund. The Series 2002 were repaid during fiscal year 2003 and bore interest at 2.75% and were priced to yield 1.418%.

On August 26, 2003, the Comptroller's office sold approximately \$7.4 billion of the State of Texas Tax and

Revenue Anticipation Notes, Series 2003 dated September 2, 2003 with a maturity date of August 31, 2004. The notes bear interest at 2.0% and were priced to yield 1.158%. They are not subject to redemption prior to maturity. Short-term debt activity for the year ended August 31, 2003, is as follows:

Tax and Revenue Anticipation Notes

For the Year Ended August 31, 2003 (In Thousands)

	Beginning Balance 9/1/02	Issued	Redeemed	Ending Balance 8/31/03
Tax and Revenue Anticipation Notes	\$ 5,822,475	\$ 0	\$ 5,822,475	\$ 0

Note 5 Long-Term Liabilities

The long-term liabilities activity for the fiscal year ended August 31, 2003 is shown in the table below:

Long-Term Liabilities Activity

For the Year Ended August 31, 2003 (In Thousands)

	Beginning Balance 9/1/02	Additions	Deletions	Ending Balance 8/31/03	Amounts Due within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	\$ 198,008	\$ 96,705	\$ 84,022	\$ 210,691	\$ 96,124 *	\$ 114,567
Capital Lease Obligations	51,874	4,079	4,249	51,704	3,966	47,738
Employees' Compensable Leave	446,516	515,216	468,909	492,823	337,479	155,344
Notes and Loans Payable	98,265	138,429	133,495	103,199	15,906	87,293
General Obligation Bonds Payable	3,080,731	535,724	431,872	3,184,583	128,626	3,055,957
Revenue Bonds Payable	809,128	43,820	114,031	738,917	67,936	670,981
Net Pension Obligation	230,241	325,376	230,241	325,376		325,376
Other Long-Term Liabilities	1,954		1,954			
Governmental Activities Long-Term Liabilities	<u>\$ 4,916,717</u>	<u>\$ 1,659,349</u>	<u>\$ 1,468,773</u>	<u>\$ 5,107,293</u>	<u>\$ 650,037</u>	<u>\$ 4,457,256</u>
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	\$ 47,571	\$ 115,148	\$ 97,948	\$ 64,771	\$ 16,408	\$ 48,363
Capital Lease Obligations	19,586	9,051	5,275	23,362	2,660	20,702
Employees' Compensable Leave	353,824	50,936	8,767	395,993	54,534	341,459
Notes and Loans Payable	1,606,834	1,589,487	1,307,396	1,888,925	767,364	1,121,561
Liabilities Payable from Restricted Assets	3,692,143	4,858,802	5,021,415	3,529,530	328,209	3,201,321
General Obligation Bonds Payable	2,670,594	250,073	321,470	2,599,197	103,775	2,495,422
Revenue Bonds Payable	8,263,757	2,224,425	1,211,269	9,276,913	429,014	8,847,899
Assets Held for Others	407,245		299,955	107,290		107,290
Other Long-Term Liabilities	51,339	70,571	25,473	96,437	1,231	95,206
Business-Type Activities Long-Term Liabilities	<u>\$17,112,893</u>	<u>\$ 9,168,493</u>	<u>\$ 8,298,968</u>	<u>\$17,982,418</u>	<u>\$ 1,703,195</u>	<u>\$16,279,223</u>
COMPONENT UNITS						
Capital Lease Obligations	\$ 27	\$ 348	\$ 27	\$ 348	\$ 196	\$ 152
Employees' Compensable Leave	2,723	3,561	2,230	4,054	2,727	1,327
Notes and Loans Payable	242,036	164,790	151,433	255,393	59,326	196,067
Liabilities Payable from Restricted Assets	151,163	3,008		154,171	2,781	151,390
Revenue Bonds Payable	189,013	14,819	30,814	173,018	11,369	161,649
Other Long-Term Liabilities	31,035	52,385	18,985	64,435	248	64,187
Component Units Long-Term Liabilities	<u>\$ 615,997</u>	<u>\$ 238,911</u>	<u>\$ 203,489</u>	<u>\$ 651,419</u>	<u>\$ 76,647</u>	<u>\$ 574,772</u>

* This amount does not tie to the Statement of Net Assets by \$24 which is not considered to be a portion of long-term liabilities since it was reported on the fund financial statements.

Notes and Loans Payable consists of amounts used to purchase mainframe computer equipment, software development, and construction of adult and youth corrections and mental health and mental retardation facilities. Debt service requirements for Notes and Loans Payable in the long-term liabilities are shown below:

**Notes and Loans Payable
Debt Service Requirements
Governmental Activities**
(In Thousands)

	Principal	Interest	Total
2004	\$ 15,906	\$ 4,129	\$ 20,035
2005	9,344	3,756	13,100
2006	11,720	3,285	15,005
2007	9,180	2,796	11,976
2008	6,628	2,412	9,040
2009 - 2013	19,494	8,807	28,301
2014 - 2018	17,083	4,510	21,593
2019 - 2023	13,844	1,140	14,984
Total Requirements	<u>\$ 103,199</u>	<u>\$ 30,835</u>	<u>\$ 134,034</u>

**Notes and Loans Payable
Debt Service Requirements
Business-Type Activities**
(In Thousands)

	Principal	Interest	Total
2004	\$ 767,364	\$ 62,481	\$ 829,845
2005	8,840	51,269	60,109
2006	7,979	50,885	58,864
2007	132,034	50,570	182,604
2008	782,104	44,440	826,544
2009 - 2013	34,445	25,797	60,242
2014 - 2018	49,245	16,789	66,034
2019 - 2023	44,560	6,565	51,125
2024 - 2028	5,646	224	5,870
Total Requirements	<u>\$1,832,217</u>	<u>\$ 309,020</u>	<u>\$2,141,237</u>
Premium/Discount*	<u>56,708</u>		<u>56,708</u>
	<u>\$1,888,925</u>	<u>\$ 309,020</u>	<u>\$2,197,945</u>

* Bond anticipation note includes premium and discount
(\$56,760 - \$52 = \$56,708)

**Notes and Loans Payable
Debt Service Requirements
Component Units**
(In Thousands)

	Principal	Interest	Total
2004	\$ 59,326	\$ 12,581	\$ 71,907
2005	28,102	11,122	39,224
2006	31,204	9,599	40,803
2007	26,030	7,876	33,906
2008	36,481	6,347	42,828
2009 - 2013	74,250	9,818	84,068
Total Requirements	<u>\$255,393</u>	<u>\$57,343</u>	<u>\$312,736</u>

General Obligation Bonds Payable and Revenue Bonds are described in detail in Note 6.

Claims and Judgments are payments on behalf of the state, its agencies, and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$25,000 or numerous separate claims from the same individual or entity that in total exceed \$25,000 must be approved by the State Legislature before being paid.

Employees' Compensable Leave is the state's liability for all unused vacation and unpaid over-time accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination.

Capital Lease Obligations are described in detail in Note 7.

Liabilities that are associated with the acquisition of restricted assets or liabilities that will be liquidated with restricted assets are classified as Liabilities Payable from Restricted Assets.

Net Pension Obligation is described in Note 9.

Assets held by the state for non-state entities (such as art collections owned by families, estates, and others) are classified as Assets Held for Others.

All remaining liabilities are classified as Other.

Note 6 Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The State of Texas has 365 bond issues outstanding as of August 31, 2003. During fiscal year 2003, the state paid \$375.5 million from general revenue for debt service.

General Obligation Bonds - General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** issues general obligation bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects, and flood control projects. Debt service payments are funded by principal and interest received on bonds bought from the political subdivisions, repayments of purchased water storage contracts, and earnings on temporary investments.

The **General Land Office/Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing, or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

Constitutional Appropriation Bonds are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund, which is dedicated to the University of Texas and Texas A&M University Systems. Debt service payments on bonds issued are limited to the \$87.5 million in general revenue available for debt service each year.

The **Texas Department of Economic Development** has the authority to issue general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, and to provide loans to finance the commercialization of new and improved products and processes.

The **Texas Agricultural Finance Authority**, a public authority created within the Department of Agriculture, has the authority to issue bonds to provide financial assistance for the expansion, development, and diversification of agricultural businesses.

General Obligation Bonds - Authorized But Unissued

The Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of August 31, 2003, the amounts of general obligation bonds other than Constitutional Appropriation Bonds that were authorized but unissued are listed in the table below:

General Obligation Bonds Authorized But Unissued (In Thousands)

SELF-SUPPORTING

Texas Agricultural Finance Authority Bonds	\$ 14,000
Texas Department of Economic Development Bonds	45,000
Farm and Ranch Loan Bonds	50,000
Veterans Land and Housing Bonds	605,002
Water Development Bonds	2,286,264
College Student Loan Bonds	250,000
Texas Military Preparedness Commission	250,000
Agricultural Water Conservation Bonds	164,840
	<u>3,665,106</u>

NOT SELF-SUPPORTING

Texas Public Finance Authority Bonds	824,483
Water Development Bonds - State Participation Bonds	15,000
Water Development Bonds - Economically Distressed Areas Program	61,571
	<u>901,054</u>

Total General Obligation Bonds	<u>\$4,566,160</u>
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Revenue Bonds - General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations:

- Texas Military Facilities Commission Bonds;
- Texas Public Finance Authority Bonds;
- Texas Department of Criminal Justice Bonds; and
- Texas Parks and Wildlife Department Bonds.

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Texas Military Facilities Commission** issues bonds for the construction, expansion, and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Public Finance Authority** issues bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Public Finance Authority** issued bonds to establish the Texas Workers' Compensation Insurance Fund

that would operate as an insurance carrier. Due to changes in organizational structure, the fund is now a related organization and their name has changed to the Texas Mutual Insurance Company. Debt service is paid from securities on deposit in the Escrow Fund. The Escrow Fund was established to provide for the full and complete discharge of the Fund's obligation to continue collecting a maintenance tax surcharge on gross premiums of insurers providing workers compensation insurance in the state. The Authority has also issued bonds on behalf of other state agencies and universities.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs. The bonds are payable from state appropriations.

The **General Land Office/Veterans' Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans. The bonds are limited and special revenue obligations of the Board payable solely from the income, revenues, receipts, and collateral pledged under the related trust indenture.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the

Changes in Bonds Payable

For the Year Ended August 31, 2003 (In Thousands)

	Bonds Outstanding 9/1/02	Bonds Issued	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/03	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	\$ 3,080,731	\$ 535,724	\$ 164,285	\$ 267,587	\$ 3,184,583	\$ 128,626
Revenue Bonds	809,128	43,820	74,106	39,925	738,917	67,936
Governmental Activities Bond Total	<u>3,889,859</u>	<u>579,544</u>	<u>238,391</u>	<u>307,512</u>	<u>3,923,500</u>	<u>196,562</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,670,594	250,073	146,765	174,705	2,599,197	103,775
Revenue Bonds	8,263,757	2,224,425	271,456	939,813	9,276,913	429,014
Business-Type Activities Bond Total	<u>10,934,351</u>	<u>2,474,498</u>	<u>418,221</u>	<u>1,114,518</u>	<u>11,876,110</u>	<u>532,789</u>
COMPONENT UNITS						
Revenue Bonds	<u>189,013</u>	<u>14,819</u>	<u>12,131</u>	<u>18,683</u>	<u>173,018</u>	<u>11,369</u>
Total Bonds	<u>\$15,013,223</u>	<u>\$ 3,068,861</u>	<u>\$ 668,743</u>	<u>\$ 1,440,713</u>	<u>\$15,972,628</u>	<u>\$ 740,720</u>

Debt Service Requirements

(In Thousands)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 128,626	\$ 149,149	\$ 277,775	\$ 67,936	\$ 33,443	\$ 101,379
2005	207,474	143,178	350,652	90,469	29,536	120,005
2006	265,305	132,768	398,073	84,501	25,332	109,833
2007	270,160	120,801	390,961	80,072	20,959	101,031
2008	284,889	106,828	391,717	55,460	17,777	73,237
2009-2013	1,221,485	332,956	1,554,441	259,295	59,128	318,423
2014-2018	536,415	132,391	668,806	137,770	19,737	157,507
2019-2023	176,650	59,241	235,891	14,365	1,504	15,869
2024-2028	56,605	29,773	86,378	1,115	145	1,260
2029-2033	46,035	17,213	63,248	0	0	0
2034-2038	97,410	5,157	102,567	0	0	0
	3,291,054 *	1,229,455	4,520,509	790,983 *	207,561	998,544
Less Accretion	106,471		106,471	52,066		52,066
Total	<u>\$ 3,184,583</u>	<u>\$ 1,229,455</u>	<u>\$ 4,414,038</u>	<u>\$ 738,917</u>	<u>\$ 207,561</u>	<u>\$ 946,478</u>

BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 103,775	\$ 117,144	\$ 220,919	\$ 429,014	\$ 461,144	\$ 890,158
2005	94,392	112,337	206,729	290,677	439,455	730,132
2006	83,522	108,691	192,213	295,520	427,078	722,598
2007	86,999	105,504	192,503	322,868	413,101	735,969
2008	87,271	102,355	189,626	335,688	397,745	733,433
2009-2013	505,406	446,380	951,786	1,755,035	1,746,930	3,501,965
2014-2018	528,296	329,288	857,584	1,987,217	1,284,632	3,271,849
2019-2023	466,195	196,249	662,444	1,431,568	828,880	2,260,448
2024-2028	288,170	96,122	384,292	1,015,367	594,532	1,609,899
2029-2033	285,255	40,527	325,782	1,272,337	390,281	1,662,618
2034-2038	80,160	7,180	87,340	854,813	269,075	1,123,888
2039-2043	9,465	1,163	10,628	803,411	113,437	916,848
	2,618,906 *	1,662,940	4,281,846	10,793,515 *	7,366,290	18,159,805
Less Accretion	19,709		19,709	1,524,425		1,524,425
Add Premium				35,275		35,275
Less Discount				21,296		21,296
Less Loss on Refunding				6,156		6,156
Total	<u>\$ 2,599,197</u>	<u>\$ 1,662,940</u>	<u>\$ 4,262,137</u>	<u>\$ 9,276,913</u>	<u>\$ 7,366,290</u>	<u>\$16,643,203</u>

COMPONENT UNITS

Year	Revenue Bonds		
	Principal	Interest	Total
2004	\$ 11,369	\$ 5,491	\$ 16,860
2005	10,415	4,883	15,298
2006	9,435	4,315	13,750
2007	8,090	3,780	11,870
2008	5,255	1,856	7,111
2009-2013	11,805	12,424	24,229
2014-2018	1,565	10,952	12,517
2019-2023	1,690	10,415	12,105
2024-2028	102,140	7,912	110,052
2029-2033	3,430	1,291	4,721
2034-2038	10,130	749	10,879
2039-2043	175,324 *	64,068	239,392
Add Premium	869		869
Less Loss on Refunding	3,175	0	3,175
Total	<u>\$ 173,018</u>	<u>\$ 64,068</u>	<u>\$ 237,086</u>

* Increase is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

Miscellaneous Bond Information

(In Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities		First Call Date
				First Year	Last Year	
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	\$ 5,360,607	2.00	10.40	1991	2038	08/01/99
Revenue Bonds	1,433,066	3.00	9.00	1991	2025	02/01/01
Governmental Activities Bond Total	<u>\$ 6,793,673</u>					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	\$ 3,777,904	1.37	9.50	1993	2042	12/01/93
Revenue Bonds	12,053,784	1.25	15.00	1970	2043	01/01/78
Business-Type Activities Bond Total	<u>\$ 15,831,688</u>					
COMPONENT UNITS						
Revenue Bonds	<u>\$ 288,310</u>	3.25	7.10	1989	2034	07/15/86
Grand Total	<u>\$ 22,913,671</u>					

revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the Water Pollution Control Revolving Fund commonly referred to as the State Revolving Fund. The proceeds are used to provide financial assistance to political subdivisions to construct wastewater treatment facilities. Political subdivision bonds are pledged for debt service requirements of the bonds.

Permanent University Fund (Fund) Bonds are issued by the University of Texas and Texas A&M University Systems to build, equip, or buy buildings or other permanent improvements. The Texas Constitution limits each System's Fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of Fund assets, excluding real estate. Revenue from investments of the Fund is pledged to secure the payment of interest and principal. The cost value of Fund assets at August 31, 2003, excluding real estate, was \$7,138 million. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below:

Miscellaneous College and University Revenue Bonds are issued by colleges and universities and include (a) various series secured by pledged revenues from auxiliary enterprises and (b) various

series secured by pledged student tuition and fees. Numerous revenue bond series have been issued by 11 state colleges and universities, and university systems.

The **Texas Small Business Industrial Development Corporation**, a non-profit corporation managed by the Department of Economic Development, issues industrial development loans to businesses and political subdivisions. The bonds are obligations of the corporation; payable and collateralized solely by the revenues and assets pledged in trust indentures and sales contracts.

The **Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board, issued bonds to purchase from the Board the majority of existing political subdivision bonds held. The political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and construct-

Permanent University Fund Bonds

(In Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	\$1,427,512	\$ 587,475	\$ 840,037
Texas A&M University System	713,756	227,253	486,503
Totals	<u>\$2,141,268</u>	<u>\$ 814,728</u>	<u>\$ 1,326,540</u>

ing the initial phase of the Central Texas Turnpike System (CTTP) located in the greater City of Austin, Texas metropolitan area in Travis and Williamson Counties, Texas. The bond obligations are payable from, and secured solely by a first lien on and pledge of the Trust Estate.

Demand Bonds

The Texas Small Business Industrial Development Corporation (TSBIDC) has issued revenue bonds and the General Land Office/Veterans' Land Board (GLO) has issued 11 general obligation variable rate bonds that are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. TSBIDC bond proceeds are used to issue industrial development loans to businesses and political subdivisions and GLO bond proceeds were used to fund housing and land loans to eligible Texas veterans, and to refund several bond issues. The principal balances outstanding on these bonds at August 31, 2003 are \$99.3 million and \$477.3 million, respectively.

TSBIDC has entered into an irrevocable letter of credit agreement with Kredietbank Bank that expires July 29, 2005. The letter of credit secures the demand bonds. Interest is payable on the principal portion up to a maximum of 58 days' accrued interest at 15%. Letter of credit fees are paid quarterly at 0.4% per annum of the stated amount of the letter of credit with various applicable adjustments.

GLO has entered into a liquidity agreement with the Comptroller of Public Accounts that secures three of the bond issues. The agreement terminates on August 31, 2005. GLO pays an annual liquidity fee of 0.04% on the principal outstanding. In addition, GLO has entered into a standby bond purchase agreement with JP Morgan Chase Bank that secures five bond issues. This agreement terminates on December 16, 2003. GLO pays an annual liquidity fee on this agreement of 0.11% on the principal outstanding. GLO has also entered into standby bond purchase agreements with Landesbank Hessen-Thüringen Girozentrale for three bond issues. These agreements terminate on November 4, 2003; March 1, 2004; and July 6, 2004. Under these agreements, GLO pays an annual liquidity fee of 0.125% on the principal outstanding.

The bondholder may tender any of these bonds for repurchase every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the letter of credit, liquidity or standby purchase agreements. As of August 31, 2003, there have been no draws on the letter of credit or any agreements. TSBIDC and GLO do not have take out agreements as part of the letter of credit, liquidity, or standby purchase agreements nor as a separate arrangement.

Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal year 2003 are as follows:

Early Extinguished Debt Issues (In Thousands)	
GOVERNMENTAL ACTIVITIES	
Revenue Bonds	
Texas Higher Education Coordinating Board	\$ 5,800
Governmental Activities Total	5,800
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
General Land Office	28,430
Revenue Bonds	
Texas Department of Housing and Community Affairs	241,855
Texas Water Development Board	38,750
Stephen F. Austin University	755
University of Texas System	12,000
Business-Type Activities Total	321,790
COMPONENT UNITS	
Revenue Bonds	
Texas State Affordable Housing Corporation	2,395
Texas Water Resources Finance Authority	3,230
Component Units Total	5,625
Grand Total	<u>\$ 333,215</u>

The source of funds used for the extinguishments included loan repayments, and other available funds.

Refunding

During fiscal year 2003, eight entities refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes:

Refunding Issues (In Thousands)					
	Types of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase (Reduction)	Economic Gain (Loss)
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Public Finance Authority	Advance Refunding	\$ 324,694	\$ 164,395	\$ (666)	\$ 4,591
Texas Higher Education Coordinating Board	Current Refunding	178,190	103,190		
		<u>502,884</u>	<u>267,585</u>	<u>(666)</u>	<u>4,591</u>
Revenue Bonds					
Texas Public Finance Authority	Current Refunding	35,240	34,125		
Governmental Activities Total		<u>538,124</u>	<u>301,710</u>	<u>(666)</u>	<u>4,591</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
General Land Office	Current Refunding	50,290	50,290	11,829	7,448
Texas Water Development Board	Advance Refunding	91,100	95,985	20,443	16,384
		<u>141,390</u>	<u>146,275</u>	<u>32,272</u>	<u>23,832</u>
Revenue Bonds					
Texas Water Development Board	Current Refunding	187,600	185,200	5,600	14,600
Midwestern State University	Advance Refunding	13,180	4,400	305	50
Texas State University System	Advance Refunding	14,170	18,710	128	361
University of Houston System	Advance Refunding	45,425	46,800	3,229	2,734
Texas A&M University System	Current & Advance Refunding	336,920	228,255	(34,090)	6,223
University of Texas System	Advance Refunding	163,285	163,815	20,321	10,219
		<u>760,580</u>	<u>647,180</u>	<u>(4,507)</u>	<u>34,187</u>
Business-Type Activities Total		<u>901,970</u>	<u>793,455</u>	<u>27,765</u>	<u>58,019</u>
COMPONENT UNITS					
Revenue Bonds					
Texas State Affordable Housing Corp	Current Refunding	13,950	14,620	231	231
Grand Total		<u>\$1,454,044</u>	<u>\$1,109,785</u>	<u>\$ 27,330</u>	<u>\$ 62,841</u>

Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the State Treasury Safekeeping Trust Company and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Texas Treasury Safekeeping Trust Company to defease \$1.209 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. As of August 31, 2003, the following amounts of defeased bonds, at par, remained outstanding:

Defeased Bonds Outstanding (In Thousands)

GOVERNMENTAL ACTIVITIES	
Texas Public Finance Authority	\$1,366,486
Texas Military Facilities Commission	4,675
Water Development Board	36,960
Department of Criminal Justice	52,684
	<u>1,460,805</u>
BUSINESS-TYPE ACTIVITIES	
General Land Office and Veterans' Land Board	64,700
Water Development Board	161,085
Texas Southern University	380
Midwestern State University	4,400
Stephen F. Austin State University	4,666
Texas Tech System	59,038
University of North Texas System	14,165
Texas State University System	65,930
University of Houston System	1,220
Texas A&M System	176,114
The University of Texas System	371,561
	<u>923,259</u>
Total	<u>\$2,384,064</u>

Conduit Debt

The Texas State Affordable Housing Corporation is authorized to issue statewide 501 (c) (3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501 (c) (3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to non-profit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the State of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of August 31, 2003, there were thirty-two series of multifamily housing revenue bonds outstanding with an aggregate \$480.3 million principal amount payable.

DERIVATIVES

During fiscal year 2003, Veterans' Land Board (the Board) and University of Texas System (the System) have reported derivatives.

Pay-Fixed, Receive-Variable Interest Rate Swaps (Veterans' Land Board)

Objective of the Swaps: The Board is currently a party to twenty-two pay-fixed, receive-variable interest rate swaps that are associated with twenty-two variable-rate bond issues. The combination of swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the Board's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds. Several of the swaps contain embedded barrier options that provide for the Board to be "knocked out" of the swaps by the respective counterparties upon the breach of a certain predetermined barrier. In each of these cases, the Board was paid an upfront option premium by the respective counterparties. With regard to the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000, the knock-outs are permanent and are optional at the discretion of the counterparty. In the remainder of the swaps with embedded barrier options, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the barrier was breached.

Terms, Fair Values, and Credit Ratings: The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of August 31, 2003, are shown in the table on the following page. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Fixed Receive-Variable Interest Rate Swaps (In Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
Vet Hsg Ref Bds Ser '95	\$ 74,120	11/29/1995	5.5200%	Actual Bond Rate	N/A
Vet Land Ref Bds Ser '99A	35,935	06/01/1999	5.1120%	68% of 6M LIBOR	N/A
Vet Land Tax Ref Bds Ser '99B	36,720	12/01/1999	5.1250%	100% of 6M LIBOR	1M LIBOR >= 6.50%
Vet Land Tax Ref Bds Ser 2000	39,960	12/01/2000	6.1060%	100% of 6M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2001A-2	20,000	12/03/2001	4.3000%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	4.3650%	68% of 1M LIBOR	N/A
Vet Land Bds Ser 2002	20,000	02/21/2002	4.1400%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2002A-2	38,300	07/10/2002	3.8725%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	4.9350%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2002B	22,235	12/01/2002	4.9100%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2003A	50,000	03/04/2003	3.3040%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2003	29,285	12/01/2003	5.1230%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	5.1900%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Land Tax Ref Bds Ser 2004	24,755	12/01/2004	5.4550%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2004A	43,870	12/01/2004	5.3480%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2004B	19,550	06/01/2004	5.4500%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2005	22,795	12/01/2005	6.5170%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006	31,030	06/01/2006	6.5400%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006A	41,050	12/01/2006	6.5130%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006	22,325	06/01/2006	5.7900%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006A	38,570	06/01/2006	5.8300%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009	16,950	12/01/2009	6.2200%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Total	<u>\$728,000</u>				

Concluded below

Pay-Fixed Receive-Variable Interest Rate Swaps (concluded) (In Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings
Vet Hsg Ref Bds Ser '95	N/A	N/A	N/A	\$(11,177)	12/01/2016	AAA/Aaa
Vet Land Ref Bds Ser '99A	N/A	N/A	N/A	(4,563)	12/01/2018	AAA/Aaa
Vet Land Tax Ref Bds Ser '99B	Optional	Permanent	\$ 740	(3,397)	12/01/2009	AA+/Aaa
Vet Land Tax Ref Bds Ser 2000	Optional	Permanent	2,700	(7,142)	12/01/2020	AA+/Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A	N/A	N/A	(1,319)	12/01/2029	AA-/Aa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A	N/A	N/A	(2,459)	12/01/2033	AA+/Aaa
Vet Land Bds Ser 2002	N/A	N/A	N/A	(1,342)	12/01/2032	AA-/Aa3
Vet Hsg Fund II Bds Ser 2002A-2	N/A	N/A	N/A	(1,189)	06/01/2033	AAA/Aaa
Vet Land Tax Ref Bds Ser 2002	Mandatory	Periodic	2,785	(2,747)	12/01/2021	AA-/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2002B	Mandatory	Periodic	2,165	(2,077)	06/01/2023	AA+/Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A	N/A	N/A	372	06/01/2034	AA-/Aa3
Vet Land Tax Ref Bds Ser 2003	Mandatory	Periodic	1,896	(2,768)	12/01/2023	AA-/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2003	Mandatory	Periodic	4,470	(4,684)	06/01/2021	AA+/Aaa
Vet Land Tax Ref Bds Ser 2004	Mandatory	Periodic	2,075	(1,988)	12/01/2024	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2004A	Mandatory	Periodic	2,594	(3,205)	06/01/2020	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2004B	Mandatory	Periodic	1,442	(1,911)	12/01/2024	AAA/Aaa
Vet Land Tax Ref Bds Ser 2005	Mandatory	Periodic	1,542	(2,940)	12/01/2026	AAA/Aaa
Vet Land Tax Ref Bds Ser 2006	Mandatory	Periodic	1,931	(3,701)	12/01/2027	AAA/Aaa
Vet Land Tax Ref Bds Ser 2006A	Mandatory	Periodic	2,725	(4,601)	12/01/2027	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006	Mandatory	Periodic	1,493	(1,750)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006A	Mandatory	Periodic	1,992	(3,654)	12/01/2026	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2009	Mandatory	Periodic	612	(837)	12/01/2021	AAA/Aaa
Total			<u>\$31,162</u>	<u>\$(69,079)</u>		

**Pay-Variable
Receive-Variable Interest Rate Swaps**
(In Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Variable-Rate Received	Fair Value	Swap Termination Date	Counter-party Credit Ratings
Vet Hsg Fund II Tax Bds Ser '97B-2	\$ 25,000	09/27/2002	132.60% of BMA	100% of 3M LIBOR	\$ (360)	12/01/2010	AA-/Aa3
Vet Hsg Fund II Tax Bds Ser '99A-2	90,000	08/05/2002	134.40% of BMA	100% of 1M LIBOR	(2,044)	09/01/2011	AAA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	60,000	08/05/2002	134.40% of BMA	100% of 1M LIBOR	(1,565)	09/01/2011	AA+/Aaa
Vet Land Tax Bds Ser 2000A/2002A	39,515	08/05/2002	131.25% of BMA	100% of 1M LIBOR	(1,134)	12/01/2032	AA-/Aa3
Total	<u>\$214,515</u>				<u>\$ (5,103)</u>		

**Pay-Variable, Receive-Variable Interest Rate Swaps
(Veterans' Land Board)**

Objective of the Swaps: The Board is currently a party to four pay-variable, receive-variable interest rate swaps that are associated with three taxable variable-rate bond issues. These swaps are LIBOR-to-BMA basis swaps and effectively convert the variable rate on the associated variable-rate bond issues from a LIBOR (taxable) based rate to a BMA (tax-exempt) based rate. The swaps are expected to generate an effective lower borrowing cost to the Board over the life of the swaps.

Terms, Fair Values, and Credit Ratings: The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of August 31, 2003, are shown in the table above. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Swap Transactions (Veterans' Land Board)

Fair Value: The fair values of the swaps were estimated using the zero-coupon method. Using observable market information for Treasury bonds and LIBOR spreads, a smoothed LIBOR swap yield curve is constructed. From this swap yield curve, the path of future expected floating LIBOR interest rates is determined for a specific swap transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a series of payments. These payments are

then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

For swaps with embedded options, an additional calculation similar to that described above is conducted to determine the value of the options. Using the approach described above, a swap rate is derived for each potential exercise date of each option. Market-derived data for interest rate volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the option. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the option.

Credit Risk: The Board mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the table on the previous page, the credit ratings of the Board's counterparties range from AAA to AA- by Standard & Poor's and Aaa to Aa3 by Moody's Investors Service.

The Board also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The Board's 26 currently outstanding swaps are spread among six different counterparties, with no more than 25.00% of the total notional amount of swaps outstanding being associated with any single counterparty.

The Board's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by Standard

& Poor's or A1 by Moody's Investors Service. Only U.S. government obligations are acceptable forms of collateral. Posted collateral may be held either by the Board itself or by a third party custodian that is rated at least BBB+ by Standard & Poor's or Baa1 by Moody's Investors Service.

Basis Risk: The Board is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The Board mitigates this risk by: (1) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue, and (2) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue.

Termination Risk: The Board or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The Board also has the right to terminate any of the swaps at any time without cause. In addition, the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the Board's balance sheet. Also, if at the time of termination for a reason other than the exercise of a termination option held by a counterparty, a swap has a negative fair value, the Board would owe the respective counterparty a termination payment equal to the swap's fair value.

Rollover Risk: The swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions at any time on or after April 29, 2002. If either of these swaps are terminated through the counterparty's exercise of its option, the associ-

ated variable-rate bonds would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the Board's balance sheet.

Bonds that are exposed to such rollover risk are shown in the table below.

Interest Rate Swaps Subject to Rollover

Associated Bond Issue	Maturity Date of Bonds	Option Exercise Date	Swap Termination Date
Vet Land Tax Ref Bds Ser '99B	12/01/2009	04/29/2002	12/01/2009
Vet Land Tax Ref Bds Ser 2000	12/01/2020	04/29/2002	12/01/2020

Swap Payments and Associated Debt: Using rates as of August 31, 2003, the estimated debt service requirements of the Board's variable-rate bonds and associated net swap payments, *assuming current interest rates and swap index relationships remain the same* for their terms, are shown in the tables on the following pages. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Inverse Floating-Rate Bonds (Veterans' Land Board)

The Veterans' Land Board delivered its \$6 million State of Texas Veterans' Housing Assistance Bonds, Series 1994B-2 (auction rate securities) and \$6 million State of Texas Veterans' Housing Assistance Bonds, Series 1994B-3 (inverse floaters), on March 15, 1994.

The aggregate interest payable by the Board on the aggregate outstanding principal amounts of auction rate securities and the inverse floaters, which will always be equal, is fixed and will be derived by applying the notional rate (5.70%) to the aggregate outstanding principal of the auction rate securities and the inverse floaters. See the bonds' Official Statement for more details on the calculation of the interest payment. The Official Statement may be obtained by contacting Veterans' Land Board at P.O. Box 12873, Austin, Texas 78711-2873.

**Pay-Fixed, Receive-Variable Swaps:
Estimated Debt Service Requirements of Variable-Rate
Debt Outstanding and Net Swap Payments
(In Thousands)**

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2004	\$ 6,365	\$ 3,643	\$ 15,083	\$ 25,091
2005	12,945	3,556	14,695	31,196
2006	14,300	3,429	14,149	31,878
2007	14,375	3,292	13,563	31,230
2008	15,120	3,154	12,963	31,237
2009-2013	74,905	13,695	55,508	144,108
2014-2018	98,435	9,696	37,183	145,314
2019-2023	68,820	5,471	19,938	94,229
2024-2028	37,865	3,001	11,078	51,944
2029-2033	43,965	1,177	4,330	49,472
2034-2038	2,860	15	53	2,928
Total	<u>\$389,955</u>	<u>\$ 50,129</u>	<u>\$198,543</u>	<u>\$638,627</u>

**Pay-Variable, Receive-Variable Swaps:
Estimated Debt Service Requirements of Variable-Rate
Debt Outstanding and Net Swap Payments
(In Thousands)**

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2004	\$ 520	\$ 2,348	\$ (27)	\$ 2,841
2005	550	2,342	(27)	2,865
2006	585	2,335	(27)	2,893
2007	620	2,328	(27)	2,921
2008	660	2,321	(27)	2,954
2009-2013	3,970	11,475	(59)	15,386
2014-2018	5,370	11,205	(17)	16,558
2019-2023	12,160	10,803	(13)	22,950
2024-2028	24,625	9,739	(9)	34,355
2029-2033	165,455	2,746	(2)	168,199
Total	<u>\$214,515</u>	<u>\$ 57,642</u>	<u>\$ (235)</u>	<u>\$271,922</u>

**Forward Floating-to-Fixed Interest Rate Swaps
(University of Texas System)**

Objective of the interest rate swap: In June 1999, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements ("Swap Agreements") with Morgan Guaranty Trust Company of New York, now J.P. Morgan Chase Bank ("Morgan"), and Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman"). The Swap Agreements were used to create a synthetic fixed-rate refunding of \$80.5 million of the Board of Regents of The University of Texas System Revenue Financing Sys-

tem Bonds, Series 1991A and 1991B ("Refunded Bonds") on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the U.T. System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The Swap Agreements effectively change the U. T. System Board of Regent's interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633%. The difference between the swap rate and the rates on the Refunded Bonds called August 15, 2001, resulted in esti-

mated present value debt service savings of approximately \$5.6 million.

Terms: Pursuant to the terms of the Swap Agreements, the U. T. System Board of Regents has agreed to pay interest on a notional amount of \$80.5 million at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the U. T. System Board of Regents, Morgan and Goldman have agreed to pay to the U. T. System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate ("LIBOR"). The Morgan Swap Agreement is for 60% of the notional amount and the Goldman Swap Agreement is for 40% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Swap Agreements are scheduled to terminate on August 15, 2013. As of August 31, 2003, there was \$58.1 million of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was \$57.3 million.

Fair Value: Because interest rates have declined since the execution of the Swap Agreements, the Swap Agreements have a negative fair value of \$4.5 million as of August

31, 2003. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Swap Agreements expose the U. T. System Board of Regents to basis risk as the variable rate received under the Swap Agreements does not perfectly match the variable rate paid on the Series 2001A Bonds. Each Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Aa3 by Moody's Investors Service ("Moody's") or AA- by Standard & Poor's Corporation ("S&P"). As of August 31, 2003, the swap providers' respective ratings by Moody's/S&P are as follows: J.P. Morgan Chase Bank, Aa3/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Swap Agreements may also be terminated by Morgan or Goldman, respectively, if the U.T. System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P.

Note 7 Capital Leases

The state has entered into long-term capital leases to buy certain assets. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Future Capital Lease Payments

For the Year Ended August 31, 2003 (In Thousands)

	Primary Government						Discretely Presented Component Unit		
	Governmental Activities			Business-Type Activities					
	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2004	\$ 3,966	\$ 3,502	\$ 7,468	\$ 2,660	\$ 1,067	\$ 3,727	\$ 196	\$ 15	\$ 211
2005	4,059	3,242	7,301	2,258	955	3,213	85	13	98
2006	4,053	3,029	7,082	1,827	860	2,687	67	8	75
2007	4,167	2,734	6,901	1,588	761	2,349			
2008	3,284	2,470	5,754	1,643	690	2,333			
2009-2013	17,551	9,569	27,120	6,952	2,449	9,401			
2014-2018	6,996	4,009	11,005	6,434	782	7,216			
2019-2023	7,152	1,564	8,716						
2024-2028	476	18	494						
Totals	<u>\$ 51,704</u>	<u>\$ 30,137</u>	<u>\$ 81,841</u>	<u>\$ 23,362</u>	<u>\$ 7,564</u>	<u>\$ 30,926</u>	<u>\$ 348</u>	<u>\$ 36</u>	<u>\$ 384</u>

The following table is an analysis of the property acquired under capital leases by asset category at August 31, 2003.

Assets Under Capital Leases

(In Thousands)

Class of Property	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business - Type Activities			
	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	\$ 2,076	\$	\$ 445	\$	\$	\$
Buildings	60,473	14,159	20,120	886		
Furniture and Equipment	5,112	1,207	7,853	2,643	626	252
Vehicles, Boats, etc.	499	120	660	122		
Totals	<u>\$ 68,160</u>	<u>\$ 15,486</u>	<u>\$ 29,078</u>	<u>\$ 3,651</u>	<u>\$ 626</u>	<u>\$ 252</u>

Note 8 Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rentals on noncancelable operating leases as of August 31, 2003:

Noncancelable Operating Leases (In Thousands)		
Minimum Future Rentals As of August 31, 2003	Minimum Future Lease Payments	
	Primary Government	Component Units
2004	\$ 185,370	\$ 1,347
2005	158,628	916
2006	124,570	531
2007	95,358	455
2008	56,174	260
2009 - 2013	98,480	804
2014 - 2018	6,744	
2019 - 2023	3,636	
2024 - 2028	3,636	
2029 - 2032	3,636	
Total	<u>\$ 736,232</u>	<u>\$ 4,313</u>

Note 9 Retirement Systems

The State of Texas has three public employee retirement systems (PERS) that administer seven defined benefit plans and one defined contribution plan. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three agencies that administer the plans, the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commission (FPC) issue separate financial reports. These reports are audited as individual entities with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commission
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

The state has also established a defined contribution plan as authorized by Tex. Gov. Code, Chapter 830, an optional retirement program for agencies and institutions of higher education. Participation in the optional retirement program provides for the purchase of annuity contracts from any insurance or annuity company that is qualified to do business in Texas. With the purchase of these individual annuity contracts, the state has effectively transferred the obligation for the payment of benefits to the company. In the event of the insurance or annuity company's insolvency, the state does not guarantee benefits. The contributory percentages of participant salaries provided by each participant and the state were 6.65% for the participant and 6.00% for the state. In addition, the Texas Higher Education Coordinating Board and institutions of higher education contributed 2.50% from operating funds for this retirement program. For the year ended August 31, 2003, the state's expense/contribution was \$68,883,343.

GASB Statement No. 26 *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, is not applicable for the State of Texas since the health care plans are not administered by the pension trust funds.

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of the Employees Retirement System of Texas is the administrator of the Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECO), and the Judicial Retirement System of Texas Plan

One and Plan Two (JRS). Each of these plans is considered to be a single-employer defined benefit pension plan.

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class, and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Texas Legislature. Contribution requirements are not actuarially determined, but are set by legislation.

The Employees Retirement System of Texas's audited report contains the actuarial valuations as of August 31, 2003, along with an actuarial letter dated December 10, 2003 that states that no subsequent legislative action negatively affects their certification of actuarial soundness of the funds.

Employees Retirement System of Texas Plan

The Employees Retirement System of Texas Plan, established by the Tex. Gov. Code, Title 8, Subtitle B, covers elected class members, employee class members and commissioned peace officers and custodial officers. The funding policy requires monthly contributions by both the state and employees (see Funding Information, Actuarial Methods, and Assumptions Table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of creditable service and may retire at age 50 with twelve years of service or at age 60 with eight years of service. The statutory percentage is equal to 2.3% of the current state salary of a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by the Teacher Retirement System and the Judicial Retirement System. Employee class retirement benefits vest after five years of credited service and employees may retire at age 60 with five years of service or at any

age when the combination of age and service (including months) total 80. The statutory percentage is equal to 2.3% of the average of the highest 36 months of compensation. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100% of the final average salary.

- Commissioned peace officers and custodial officers may retire at age 55 with ten years or at age 50 with twenty years of service.

Law Enforcement and Custodial Officer Supplemental Retirement Plan

The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECO), established under Tex. Gov. Code, sec. 814.107, covers statutorily certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member may receive reduced benefits once they complete 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The monthly annuity is equal to 2.8% of average monthly compensation multiplied by years of service. Average monthly compensation is the average of the highest 36 months of salary out of the member's established service. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100% of the final average salary.

For the bienniums ending August 31, 2003 and August 31, 2005, the state has not and will not be required to contribute to this fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement.

Judicial Retirement System of Texas

Plans One and Two

The Judicial Retirement System of Texas Plans One and Two cover judges, justices, and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts, and certain commissions to a court. Members prior to August 31, 1985 participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with ten years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with twelve years of service. Members of Plan One may retire at any age with 20 years of service. Members in Plan Two can retire at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete ten years of service if the member currently holds judicial office with at least the last year being continuous, or at age 60 with twelve years of service.

The monthly benefit at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50% of the salary for the position from which the member retired increased by 10% of final compensation if in office within one year of benefit commencement.

Tex. Gov. Code, Title 8, Subtitle D requires employees to contribute 6% of their compensation and the state to make appropriations from the General Revenue Fund sufficient to administer the Judicial Retirement System Plan One. The contribution requirements are not actuarially determined since it is not funded in advance. There are actuarial valuations and an actuarial cost method only for fulfilling GASB Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers* requirements.

The funding policy of the Judicial Retirement System Plan Two is established by Tex. Gov. Code, Title 8, Subtitle E. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based

upon an actuarial valuation. Significant actuarial assumptions are the same as those used to compute the net pension benefit.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas is a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employer (unless the employer is a senior college, medical school, or a state agency in which case the employer is considered the State of Texas) but are the liability of the State of Texas. The Teacher Retirement System of Texas administers retirement, proportional retirement, disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. The benefit and contribution provisions of this plan are authorized by state law and may be amended by the Texas Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code, Title 8, Subtitle C, are covered by the system.

A member is vested after five years of creditable service and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of creditable service, or when the sum of the member's age and years of creditable service equals or exceeds 80 years. The service age requirement for early retirement is age 55 with five years of creditable service or any age below 50 with thirty years of creditable service. The standard life annuity benefit formula is 2.3% of the average of the three highest annual salaries multiplied by the years of service. At normal retirement age, the minimum monthly standard annuity is the greater of \$150, or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

At August 31, 2003, the number of participating employing districts was as follows:

Employing Districts

Public Schools and Service Centers	1,251
Colleges, Universities, and Medical Schools	102
Educational State Agencies	3
Total	<u>1,356</u>

Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy.

The State Constitution requires the Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the System during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

The Teacher Retirement System also offers two other annuity payment options:

- The Deferred Retirement Option Plan (DROP)

DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years.

- A Partial Lump-Sum Cash Option

The Partial Lump-Sum Cash Option reduces the standard monthly annuity. Members may select a partial lump sum distribution equal to 12, 24, or 36 months of a standard monthly annuity. This option is not available to those in DROP at the time of retirement, to those taking an early-reduced annuity, or to existing retirees (including disability retirees).

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for sole-employer plans for fiscal year 2003 are presented below.

Annual Pension Cost and Net Pension Obligation (In Thousands)

	ERS*	LECO*	JRS1*	JRS2*	TRS**	FPC**
Annual Required Contribution, ARC	\$ 311,800	\$ 0	\$ 29,632	\$ 7,777	\$1,476,559	\$ 2,600
Interest on Net Pension Obligation, NPO	(12,707)		6,427	(124)		
Adjustment to ARC	<u>7,848</u>		<u>(6,483)</u>	<u>57</u>		
Annual Pension Cost	\$ 306,941	\$ 0	\$ 29,576	\$ 7,710	\$1,476,559	\$ 2,600
Employer Contributions Made***	<u>\$ 301,555</u>	<u>\$ 0</u>	<u>\$ 22,676</u>	<u>\$ 8,294</u>	<u>\$1,239,070</u>	<u>\$ 1,950</u>
Increase (Decrease) in NPO	<u>\$ 5,386</u>	<u>\$ 0</u>	<u>\$ 6,900</u>	<u>\$ (584)</u>	<u>\$ 237,489</u>	<u>\$ 650</u>
Net Pension Obligation, September 1, 2002 Restatement****	<u>\$ (158,834)</u>	<u>\$ 0</u>	<u>\$ 80,337</u>	<u>\$ (1,548)</u>	<u>\$ 230,241</u> <u>(230,241)</u>	<u>\$ 0</u>
Net Pension Obligation, September 1, 2002, as Restated	<u>\$ (158,834)</u>	<u>\$ 0</u>	<u>\$ 80,337</u>	<u>\$ (1,548)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Pension Obligation, August 31, 2003*****	<u>\$ (153,448)</u>	<u>\$ 0</u>	<u>\$ 87,237</u>	<u>\$ (2,132)</u>	<u>\$ 237,489</u>	<u>\$ 650</u>

* The NPO calculation covers September 1, 2002 through August 31, 2003.

** The sole-employer provisions of GASB Statement No. 27 will be applied to TRS and FPC. The NPO for TRS calculation covers September 1, 2002 through August 31, 2003. The NPO calculation for FPC is as of September 1, 2001 through August 31, 2002.

*** FPC contributions are from member fire departments. The state may be required to make limited contributions to make the fund actuarially sound.

**** Information for TRS for fiscal year ended 2002 was restated to reflect the correct annual required contribution.

***** See "Funding Information, Actuarial Methods, and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Retirement Systems' Membership

	ERS*	LECO*	JRS1*	JRS2*	TRS*	FPC**
Retirees and Beneficiaries Currently Receiving Benefits	58,975	4,173	505	59	217,477	1,468
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	51,871	19	17	79	47,821	1,703
Current Employees: Vested and Non-Vested	142,163	40,335	40	477	837,270	4,760
Total Members	253,009	44,527	562	615	1,102,568	7,931

* Totals are from actuarial valuations as of August 31, 2003.

** This total includes 714 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of August 31, 2003.

Funding Information, Actuarial Methods, and Assumptions (In Thousands)

	ERS	LECO	JRS1	JRS2	TRS	FPC*
Contribution Rates						
Employees	6.0%	0.0%	6.0%	6.0%	6.4%	0.0%
Legislators	8.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Employer**	6.0%	0.0%	275.2%	16.8%	6.0%	0.0%
Annual Pension Cost	\$306,941	\$0	\$29,576	\$7,710	\$1,476,559	\$2,600
Employer Contributions Made	\$301,555	\$0	\$22,676	\$8,294	\$1,239,070	\$1,950
Actuarial Valuation Date	August 31, 2003	August 31, 2003	August 31, 2003	August 31, 2003	August 31, 2003	August 31, 2002
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age Normal	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open	Level Dollar Open
Remaining Amortization Period of Unfunded Liability	40 years	3.7 years	40 years	40 years	30 years	30 years
Asset Valuation Method	5-year Smoothed Fair Value	5-year Smoothed Fair Value	N/A	5-year Smoothed Fair Value	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:						
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	5.8-10.8%	6.0%-14.0%	4.0%	4.0%	4.0%-26.15%	0.0%
Includes Inflation at	4.0%	4.0%	4.0%	4.0%	3.0%	4.0%
Cost-of-Living Adjustments	None-Employee 4.0%-Elected	None	4.0%	None	None	None

* Benefits are not based on the salaries of members.

** Contribution requirements for JRS2 are actuarially determined each even-numbered year.
TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

Fire Fighters' Pension Commission

The Fire Fighters' Pension Commission is the administrator of two pension plans:

- The Texas Statewide Emergency Services Retirement Act (TSESRA) Fund; and
- The Texas Local Fire Fighters Retirement Act (TLFFRA).

TSESRA is a cost-sharing multiple-employer pension plan established and administered by the State of Texas to provide pension benefits for emergency services person-

nel who serve without pay. At August 31, 2003, there were 175 member fire departments participating in the pension system.

The funding policy, established by statute, requires monthly contributions from the member fire departments of at least \$12 for each member fire fighter. Additional contributions by the member fire departments may be necessary to pay for unfunded prior service costs, and "buy backs" of vested benefits required by the state. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. The contributions may not

Schedule of Funding Progress

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System (ERS)						
8/31/03	\$19,478,555	\$19,959,112	\$ (480,557)	97.6%	\$ 4,800,612	(10.0)%
8/31/02	18,909,072	18,449,521	459,551	102.5%	4,979,532	9.2%
8/31/01	18,394,458	17,527,696	866,762	104.9%	4,946,244	17.5%
Law Enforcement and Custodial Officer Supplemental Retirement (LECO)						
8/31/03	\$ 666,588	\$ 597,914	\$ 68,674	111.5%	\$ 1,277,894	5.4%
8/31/02	655,979	526,205	129,774	124.7%	1,298,593	10.0%
8/31/01	647,757	492,127	155,630	131.6%	1,291,750	12.0%
Judicial Retirement System Plan One (JRS1)						
8/31/03	\$ 0	\$ 262,766	\$ (262,766)	0.0%	\$ 3,710	(7,082.6)%
8/31/02	0	336,960	(336,960)	0.0%	8,240	(4,089.3)%
8/31/01	0	341,316	(341,316)	0.0%	9,334	(3,656.7)%
Judicial Retirement System Plan Two (JRS2)						
8/31/03	\$ 129,426	\$ 111,116	\$ 18,310	116.5%	\$ 47,479	38.6%
8/31/02	114,433	103,229	11,204	110.9%	45,965	24.4%
8/31/01	101,327	92,490	8,837	109.6%	44,490	19.9%
Teacher Retirement System of Texas (TRS)						
8/31/03	\$89,033,024	\$94,263,028	\$ (5,230,004)	94.5%	\$25,756,163	(20.3)%
8/31/02	86,034,963	89,322,406	(3,287,443)	96.3%	24,818,417	(13.2)%
8/31/01	86,351,960	84,216,785	2,135,175	102.5%	23,364,661	9.1%
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAAL Per Member Covered (not rounded)
Texas Statewide Emergency Services Retirement Act (TSESRA)						
8/31/02*	\$ 32,797	\$ 45,976	\$ (13,179)	71.3%	\$ 7,669	1,718
8/31/00	36,768	36,049	719	102.0%	7,114	(101)
8/31/98	26,420	28,619	(2,199)	92.3%	6,630	332

* Actuarial assumptions and methodology were changed for the August 31, 2002 valuation.

exceed the amount of one-third of the total of all contributions by governing bodies in one year.

Eligible members include volunteer emergency service personnel who are members in good standing of a qualifying fire-fighting unit. Members are vested, beginning with the fifth year of service, at 5% per year of service for the first ten years and 10% for each of the next five years of service.

Upon reaching age 55, a vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times his governing body's average contribution over his years of service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7% compounded annually.

Actuarial valuations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

The member fire department contributions to the fund for the years ending August 31, 2003, 2002, and 2001, were \$1,833,310, \$1,817,869, and \$1,891,628, respectively, equal to the required contributions for each year.

TLFFRA, established by statute, is an agent multiple-employer plan. Actuarial valuations are not obtained for plans which are pay-as-you-go and, therefore, are not presented on the Schedule of Funding Progress. It is not cost beneficial to obtain valuations and the TLFFRA assets are less than 1% of the TSESRA and TLFFRA plans combined.

Upon election, a department under TLFFRA can merge with the TSESRA plan. At August 31, 2003, there were 111 plans merged into the TSESRA plan. Benefit determinations for these plans are determined by each local governing board. Members under both plans are eligible for retirement service at age 55 with 5 years of service credited in the retirement system. Monthly benefits payable

for service retirement is six times the average contribution rate per member. Authority for contributions is established by statute. Members vested under the TLFFRA plan will be paid by the Commission with funds received from the local governing bodies on a pay-as-you-go basis. The liabilities of the TLFFRA pension plan are always equal to the assets and therefore, there is no fund balance.

Contributions are not actuarially determined and the state has no legal obligation for benefit payments. As of August 31, 2003, membership consisted of 714 retirees and beneficiaries.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Included in the audited financial reports for the Employees Retirement System of Texas, the Teacher Retirement System of Texas, and the Fire Fighter's Pension Commission are:

- (1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.
- (2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions of the employer (ARC) and the contributions made by the employers in relation to the ARC.

The table on the previous page presents the funding progress for the three most recent actuarial valuations of each plan. The following table presents the three-year trend information regarding annual pension cost and net pension obligation of the plans. The TLFFRA plan which is not funded in advance is not included in the funding progress or the three-year trend information tables.

Three-Year Trend Information

(In Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees Retirement System (ERS)			
8/31/03	\$ 306,941	98.2%	\$ (153,448)
8/31/02	284,461	105.8%	(158,834)
8/31/01	235,360	119.7%	(142,326)
Law Enforcement and Custodial Officer Supplemental Retirement (LECO)			
8/31/03	\$ 0	0.0%	\$ 0
8/31/02	0	0.0%	0
8/31/01	0	0.0%	0
Judicial Retirement System Plan One (JRS1)			
8/31/03	\$ 29,576	275.2%	\$ 87,237
8/31/02*			
8/31/01*			
Judicial Retirement System Plan Two (JRS2)			
8/31/03	\$ 7,710	92.9%	\$ (2,132)
8/31/02	7,311	106.7%	(1,548)
8/31/01	6,796	106.8%	(1,055)
Teacher Retirement System of Texas (TRS)			
8/31/03	\$ 1,476,559	84.0%	\$ 237,489
8/31/02**	1,201,258	100.0%	0
8/31/01	1,142,792	100.0%	0
Texas Statewide Emergency Services Retirement Act (TSESRA)			
8/31/02	\$ 2,600	75.0%	\$ 650
8/31/00	0	0.0%	0
8/31/99	0	0.0%	0

* Information was not reported in prior year audited Annual Financial Report.

** Information for fiscal year ended 2002 reflects the restated amount to correct the annual required contributions.

Note 10 Deferred Compensation

The state's deferred compensation plan complies with the Internal Revenue Code Section 457 and is accounted for according to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement establishes accounting and financial reporting standards for Internal Revenue Code Section 457 relating to deferred compensation plans of state and local governments.

The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not

available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, all property and rights purchased with those amounts and all income attributed to those amounts, property, or rights are held in trust by the Board of Trustees for the exclusive benefit of participants and their beneficiaries and may not be used for, or diverted to, any other expense except to defray the reasonable expenses of administering the plan. The state has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

The deferred compensation plan balances are recorded in pension trust funds at fair value. The estimated fair value of the aggregate deferred compensation plan assets was \$238 million as of August 31, 2003.

The state also administers another plan, "TexaSaver," created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the state nor does the state have a liability related to this plan.

Note 11 Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state administers four programs which provide health care and life insurance benefits for retired employees, their spouses, and beneficiaries. Benefits are authorized by statute and contributions are determined by the General Appropriations Act.

The Employees Retirement System (ERS) administers the program for retirees with at least 10 years of state service under the jurisdiction of ERS or the Teacher Retirement System (TRS).

Retirees who elected to participate in the Optional Retirement Program are also eligible for these benefits, providing that contributions have not been withdrawn. Public school district retirees that are members of TRS are eligible for this program as of September 1, 2002.

The University of Texas System and the Texas A&M University System provide separate post-employment health

care and life insurance coverages to their retirees, surviving spouses, and beneficiaries. Substantially all of the employees under the university systems that reach normal retirement age while working for the state may become eligible for the health and life insurance benefits.

For the year ended August 31, 2003, the state made monthly contributions for health care and life insurance. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

State Contribution Rates – Retiree Health and Basic Life Premium

For the Year Ended August 31, 2003

Level of Coverage	September 1, 2002 through April 30, 2003	May 1, 2003 through August 31, 2003
TRS & ERS		
Retiree Only	\$ 309	\$ 274
Retiree/Spouse	\$ 485	\$ 430
Retiree/Children	\$ 427	\$ 379
Retiree/Family	\$ 603	\$ 535

Level of Coverage	September 1, 2002 through August 31, 2003
Texas A&M	
Retiree Only	\$ 298
Retiree/Spouse	\$ 469
Retiree/Children	\$ 412
Retiree/Family	\$ 583

University of Texas

For fiscal year ended August 31, 2003, the monthly contribution per full-time retiree ranged from \$253 to \$619, depending upon the plan and level of coverage selected.

TRS administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care) provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles of \$1,800 with Part A Medicare and \$4,500 without. Funding for free basic coverage is provided based on public school district payroll. The State of Texas

and active school employee contribution rates are .50% and .25% of school district payroll, respectively.

The cost of state retirees' health care and life insurance benefits and TRS-Care is financed on a pay-as-you-go-basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Expenditures recognized for fiscal year 2003 for retiree health and life insurance benefits paid for by the state are shown below.

Post Employment Health Care and Life Insurance

Benefits Provided Through:	Number of Retirees	Cost (In Thousands)
Employees Retirement System	63,616	\$ 253,791
University of Texas System	11,964	23,397
Texas A&M University System	5,459	24,890
Teacher Retirement System (Public School District Employees)	159,859	265,002
Total	240,898	\$ 567,080

Note 12 Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34 refers to financial interactions with legally separate entities, i.e., discrete component units and other governments and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or non-current.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year end are accrued as Due From/Due To. Activity occurring within the same fund has been eliminated. Additional eliminations have been made and transfers in and out have been netted and presented in the government-wide statement of activities as "Transfers-Internal Activities".

According to GASB Statement No. 34, certain reclassifications and eliminations have been made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units have been reported as transfers in the fund financial statements and were reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds have been reported as transfers on the fund financial statements and were reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements.

Due From/Due To amounts between the primary government and the discretely presented component units are reported separately from Due From/Due To amounts

between funds in the fund financial statements and the government-wide financial statements, according to GASB Statement No. 34. Due From/Due To amounts between governmental or business-type activities and fiduciary funds are reported as Due From/Due To amounts between funds in the fund financial statements and are reclassified to Receivables from Fiduciary Funds/Payables to Fiduciary Funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

There is no unusual interfund activity for fiscal year 2003. The noncurrent interfund receivables/payables include loans for energy efficiency programs of approximately \$15 million. Significant transfers include a \$882 million transfer from lottery earnings to the Texas Education Agency for educational programs, a \$83 million transfer from the Comptroller to the Economic Stabilization Fund, a \$2 billion transfer from the Comptroller to the Highway Fund, and a \$696 million transfer from the Comptroller to the Available School Fund. The detail of interfund activity and transactions by fund type and category as of August 31, 2003 is shown below:

Interfund Receivables/Payables per the Fund Statements (In Thousands)				
Fund Type	Current		Non-Current	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Interfund Receivables/Payables Within the Primary Government				
Governmental Funds				
General Fund	\$ 443	\$ 74	\$ 11,006	\$ 814
Nonmajor Governmental Funds		116		2,826
	<u>443</u>	<u>190</u>	<u>11,006</u>	<u>3,640</u>
Proprietary Funds				
Colleges and Universities				7,366
Nonmajor Enterprise Funds	74	291		
	<u>74</u>	<u>291</u>	<u>0</u>	<u>7,366</u>
Fiduciary Funds				
Agency Funds		36		
	<u>0</u>	<u>36</u>	<u>0</u>	<u>0</u>
Total Interfund Receivables/Payables Within the Primary Government	<u>\$ 517</u>	<u>\$ 517</u>	<u>\$ 11,006</u>	<u>\$ 11,006</u>

**Internal Balances per the
Government-Wide Financial Statements**
(In Thousands)

	Governmental Activities	Business-Type Activities	Total
Non-Current Assets			
Internal Balances-Receivables	\$ 7,366	\$ (7,366)	\$ 0
Current Liabilities			
Internal Balance-Payables	\$ 355,195	\$ (355,195)	\$ 0

Due From/ Due To per the Fund Statements
(In Thousands)

Fund Type	Other Funds	Due From Primary Government	Component Unit	Other Funds	Due To Primary Government	Component Unit
Due From/Due To Within the Primary Government						
Governmental Funds						
General Fund	\$ 77,041	\$	\$ 397	\$659,233	\$	\$ 1,359
State Highway Fund	184,257			2,069		
Permanent School Fund	124,681			2,564		
Nonmajor Governmental Funds	151,244			185,694		
	<u>537,223</u>	<u>0</u>	<u>397</u>	<u>849,560</u>	<u>0</u>	<u>1,359</u>
Proprietary Funds						
Colleges and Universities	357,814		15	7,877		
Texas Water Development Board Funds	298			4,450		
Veterans Land Board Loan Program Funds				412		
Texas Department of Transportation Turnpike Authority Funds				736		
Nonmajor Enterprise Funds	21,474			10,699		
Governmental Activities						
Internal Service Fund				764		
	<u>379,586</u>	<u>0</u>	<u>15</u>	<u>24,938</u>	<u>0</u>	<u>0</u>
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	4,642			48,310		
Private-Purpose Trust Funds	10,000			2,368		
Agency Funds	32			6,307		
	<u>14,674</u>	<u>0</u>	<u>0</u>	<u>56,985</u>	<u>0</u>	<u>0</u>
Total Due From/Due To Within the Primary Government	<u>\$931,483</u>	<u>\$ 0</u>	<u>\$ 412</u>	<u>\$931,483</u>	<u>\$ 0</u>	<u>\$ 1,359</u>
Due From/Due To Outside the Primary Government						
Component Units	\$	\$ 1,359	\$ 155	\$	\$ 412	\$ 155
Total Due From/Due To Outside the Primary Government	<u>\$ 0</u>	<u>\$ 1,359</u>	<u>\$ 155</u>	<u>\$ 0</u>	<u>\$ 412</u>	<u>\$ 155</u>
Total Due From/Due To			<u>\$933,409</u>			<u>\$933,409</u>

Transfers In/Out per the Fund Statements

(in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
General Fund	\$ 1,819,187	\$ 10,355,724
State Highway Fund	2,085,769	10,950
Permanent School Fund		14,268
Non Major Governmental Funds	1,888,435	556,052
	<u>5,793,391</u>	<u>10,936,994</u>
Proprietary Funds		
Colleges and Universities	4,273,795	214,800
Texas Water Development Board Funds	26,213	48,948
Veterans' Land Board Loan Program Funds	1,136	19,753
Non Major Enterprise Funds	206,700	1,123,370
	<u>4,507,844</u>	<u>1,406,871</u>
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds*	1,295,469	33,209
Private-Purpose Trust Funds	870,886	108,408
	<u>2,166,355</u>	<u>141,617</u>
Component Units**	<u>26,247</u>	<u>8,355</u>
TOTAL TRANSFERS IN/OUT	<u>\$ 12,493,837</u>	<u>\$ 12,493,837</u>

* The Pension Trust Fund Operating Transfers In include both the Transfers In of Contributions and the Operating Transfers In line items.

** Fund financial statements are not presented for discrete component units and the transfers shown above are only presented in order to tie Total Transfers In/Out per fund financial statements. These amounts were reclassified to revenues and expenses on the Government-Wide Financial Statements as if they were external transactions.

Transfers In/Out per the Government-Wide Financial Statements

(In Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (3,069,447)
Business-Type Activities	\$ 3,069,447

Transfers Out to Fiduciary Funds were reclassified to Teacher Retirement Benefits on the Government-Wide Statement of Activities.

Note 13

Governmental Fund Balances – Reserved, Unreserved/Designated and Unreserved/Undesignated

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at August 31, 2003. This note only ties to the governmental fund financial statements. The government-wide, proprietary and fiduciary restrictions are listed on the face of their statement of net assets.

Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated (In Thousands)

Major Funds

General Fund - Reserved:

Encumbrances	\$ 696,231
Inventories	149,857
Imprest Accounts	3,241
Loans and Contracts	131,419
Non-Current Interfund Receivables	11,006
General Government	2,122
Natural Resources/ Recreation	48,460
	<u>\$ 1,042,336</u>

General Fund - Unreserved/Undesignated \$ (2,326,124)

State Highway Fund - Reserved:

Encumbrances	\$ 75,151
Inventories	73,482
Imprest Accounts	461
Loans and Contracts	231,830
	<u>\$ 380,924</u>

State Highway Fund - Unreserved/Designated:

Transportation	<u>\$ 289,229</u>
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Permanent School Fund - Reserved:

Encumbrances	\$ 93
Loans and Contracts	1,471
Public School Support	18,557,032
	<u>\$18,558,596</u>

Nonmajor Funds

Special Revenue Funds - Reserved:

Encumbrances	\$ 26,426
Inventories	541
Imprest Accounts	63
Loans and Contracts	752,415
	<u>\$ 779,445</u>

Special Revenue Funds - Unreserved/Designated:

General Government	\$ 619,804
Regulatory	11,954
Health & Human Services	8,324
Natural Resources/ Recreation	109,160
Education	210,524
Transportation	564
Public Safety & Corrections	5,942
Employee Benefits	297
	<u>\$ 966,569</u>

Debt Service Funds - Reserved:

Debt Service	<u>\$ 252,369</u>
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Capital Projects Funds - Reserved:

Encumbrances	\$ 38,721
Inventories	807
Public Finance Authority Programs	95,399
	<u>\$ 134,927</u>

Capital Projects Funds - Unreserved: Designated:

General Government	\$ 403
Public Safety & Corrections	3,356
Natural Resources & Recreation	10,240
	<u>13,999</u>
Undesignated	(369)
	<u>\$ 13,630</u>

Permanent Funds - Reserved:

Encumbrances	\$ 9
General Government	378,513
	<u>\$ 378,522</u>

Permanent Funds - Unreserved:

Designated:	
Permanent Health Fund	\$ 445,491
Undesignated	12,950
	<u>\$ 458,441</u>

All Governmental Funds

Reserved:	\$21,527,119
Unreserved/Designated	1,715,288
Unreserved/Undesignated	(2,313,543)
Total Fund Balances - Governmental Funds	<u>\$20,928,864</u>

Note 14

Adjustments to Fund Balances/Net Assets

During fiscal year 2003, certain accounting changes and adjustments were made which required the restatement of fund balance or net assets as shown and discussed.

Restatements to Fund Balance/Net Assets (In Thousands)			
	August 31, 2002 As Previously Reported	Restatements	August 31, 2002 As Restated
Governmental Funds and Government-Wide Activities			
Major Funds:			
General Fund	\$ 1,060,743	\$ 83,613	\$ 1,144,356
State Highway Fund	671,324		671,324
Permanent School Fund	17,273,791		17,273,791
Non-Major Funds:			
Special Revenue Funds	2,257,303	(28,649)	2,228,654
Debt Service Funds	256,945		256,945
Capital Project Funds	106,960	653	107,613
Permanent Funds	731,863		731,863
Total Nonmajor Funds	3,353,071	(27,996)	3,325,075
Total Governmental Funds	22,358,929	55,617	22,414,546
Governmental Activities:			
Capital Assets net of Accumulated Depreciation	50,469,549	27,756	50,497,305
Long-Term Liabilities	(4,914,763)	210,129	(4,704,634)
Other Adjustments	1,542,998		1,542,998
Internal Service Fund	19,333		19,333
Total Governmental Activities	47,117,117	237,885	47,355,002
Total Governmental Funds and Government-Wide Activities	69,476,046	293,502	69,769,548
Proprietary Funds and Business-Type Activities			
Major Funds:			
Colleges and Universities	22,776,961	(10,985)	22,765,976
Texas Water Development Board Funds	1,390,327		1,390,327
Veterans' Land Board Loan Program Funds	628,137	29	628,166
Texas Department of Transportation Turnpike Authority	42,720	9,718	52,438
Nonmajor Enterprise Funds	558,266	38,792	597,058
Total Enterprise Funds and Business-Type Activities	25,396,411	37,554	25,433,965
Fiduciary Funds			
Pension and Other Employee Benefit Trust Funds	89,077,021		89,077,021
External Investment Trust Funds	10,253,960	(35,677)	10,218,283
Private-Purpose Trust Funds	1,951,254	(27,786)	1,923,468
Total Fiduciary Funds	101,282,235	(63,463)	101,218,772
Total Primary Government	196,154,692	267,593	196,422,285
Discretely Presented Component Units	118,300	27,390	145,690
Total Reporting Entity	\$196,272,992	\$ 294,983	\$196,567,975

Restatements by Activity

(In Thousands)

Restatements	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Units	Total Restatements
A.	\$ 47,977	\$(26,105)	\$(34,605)	\$(5,352)	\$(18,085)
B.	27,756	46,505		1,661	75,922
C.	(12,472)	45,237	(28,858)	653	4,560
D.		(28,083)			(28,083)
E.				30,428	30,428
F.	230,241				230,241
Total Restatements	<u>\$293,502</u>	<u>\$ 37,554</u>	<u>\$(63,463)</u>	<u>\$ 27,390</u>	<u>\$294,983</u>

- A. These are miscellaneous restatements and other changes necessary to correct for accounting errors in the prior period that resulted in the over or understatement of revenues and/or expenditures
- B. This restatement is for adjusting capital assets and accumulated depreciation.
- C. This restatement is for the restatement of funds from a particular fund type to another. The overall positive balance is due to some agency funds being reclassified to governmental funds.
- D. This restatement recognizes the addition and removal of certain organizations as blended component units as a result of a re-evaluation of GASB Statement No. 14 criteria performed in preparation for the implementation of GASB Statement No. 39 in fiscal year 2004.
- E. Net assets were restated to include the Moncrief Foundation in accordance with SFAS 136.
- F. The net pension obligation was restated to reflect the correct annual required contribution.

Note 15 Contingent Liabilities

The state has been named as defendant in routine legal proceedings, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or

expenditures. Potential claims have been classified into the following categories to facilitate disclosure.

Protested Tax Payments

As of August 31, 2003, the state held protested tax payments of \$78.796 million, the majority of which were held by the State Comptroller. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance taxes, surtaxes, and various other fees under protest. In addition, plaintiffs have filed lawsuits seeking refunds for franchise, sales, insurance, motor vehicle sales and use, and oil and gas production taxes totaling \$450.081 million. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases with claims totaling \$170.411 million have been filed which may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of \$103.556 million from litigation and contractual claims. The Department of Protective and Regulatory Services is potentially impacted from civil rights, discrimination, and tort claims of \$60.937 million.

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds, and from federal drawdowns.

The Texas Water Development Board has loan commitments totaling \$700.519 million as of August 31, 2003.

Federal Assistance

The state also receives federal financial assistance, which is subject to review or audit by federal grantor agen-

cies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Guaranteed Debt

At August 31, 2003, \$29.249 billion in debt had been guaranteed by the Permanent School Fund for 1,929 outstanding bond issues in 711 school districts in the state. Under state statute, payments by the Permanent School Fund on such guarantees are recoverable from the State of Texas. The \$29 billion represents principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that have been refunded and released from the Bond Guarantee Program.

Partnerships

The University of Texas System has invested in certain limited partnerships. The partnership agreements commit the System to possible future capital contributions amounting to \$857 million as of August 31, 2003.

Note 16 Subsequent Events

Primary Government

State agencies and universities have issued over \$1,755 million in new bonds and commercial paper and over \$130 million in refunding bonds since August 31, 2003. This routine activity finances state facilities, housing assistance programs, educational loans, and refunds outstanding debt. The Texas A&M System intends to issue up to \$65 million in Revenue Financing System Commercial Paper Notes, Series B, during fiscal year 2004. On September 5, 2003, the U.T. System issued \$53 million in Revenue Financing System Commercial Paper Notes, Series A to finance the costs of campus improvements.

In September 2003, the Texas Workforce Commission issued several series of bonds to finance the Unemployment Insurance Program. \$1,380 million in bond proceeds was deposited to the credit of the Texas Unemployment Compensation Trust Fund. The Texas Department of Criminal Justice made a biennial operating budget reduction of approximately \$240 million, which dramatically changed the financial status of this agency. Legislation passed by the 78th Legislature will have a significant impact on the future operations of the office of the Governor. The Texas Department of Economic Development was abolished and its functions were transferred to the Office of the Governor, effective September 1, 2003. Senate Bill 1771 created the Texas Enterprise Funds to be administered as a trustee program of the Office of the Governor. House Bill 7 appropriated \$295 million to this fund to be used for purposes related to economic development.

The Fire Fighter's Pension Commission administers the Texas Statewide Emergency Services Retirement Act (TSESRA) Fund. On November 7, 2003, the actuary issued a valuation report for the period ending August 31, 2002 stating that the TSESRA is not financed on an actuarially sound basis. Under TSESRA Section 2(d), the state shall contribute the sum necessary to make the fund actuarially sound each year. The state's contribution may not exceed the amount of one third of the total of all contributions by governing bodies in one year.

Note 17 Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

The Texas Employees Group Benefits Program (GBP), formerly known as the Texas Employees Uniform Group Insurance Program (UGIP), provides health, life, accidental death and dismemberment (AD&D), disability, and dental insurance coverage to state and higher education employees, retirees, and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization (HMO) contracts. Effective September 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's Group Insurance Fund retains all risk under HealthSelect. The GBP also includes HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payment of premiums. The life, AD&D, and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims

exceed the claims portion of premium. The AD&D insurance is fully insured. The ERS approved two dental plans for fiscal year 2003, a dental health maintenance organization (DHMO) administered by Aetna Dental, Inc. and a dental indemnity plan underwritten by CIGNA Dental. The DHMO is fully insured with all risk transferred to Aetna Dental, Inc. Beginning September 1, 1997 the dental indemnity plan became self-funded by ERS with all risk retained by the Group Insurance Fund.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a new statewide health coverage program for public school employees and their dependents. The Teacher Retirement System administers this program. Enrollment commenced in September 2002. The new plan took effect September 1, 2002 and includes employees of most small to mid-size districts, charter schools, education service centers and certain other employers.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health, and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported) but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends, and any other factors that would modify past experience. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the General Fund government-

Changes in Claims Liability Balances (In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
2003	\$ 2,218,184	\$ 2,280,225	\$ 1,801,848	\$ 2,696,561
2002	\$ 2,266,788	\$ 2,038,989	\$ 2,087,593	\$ 2,218,184

wide governmental activities, Enterprise Funds, Internal Service Fund, and Colleges and Universities during fiscal years ending August 31, 2002 and August 31, 2003.

Note 18 Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectibility of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of August 31, 2003, the redetermination hearings process had an estimated amount of \$589 million.

Note 19 Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. However, most component units are discretely presented. None of the component units for the State of Texas meet the criteria for major component unit presentation and those presented are for information purposes of interested parties. The component units are reported for the year ended August 31, 2003 unless indicated otherwise. The material component units of the state are as follows:

Blended Component Units

Component units are blended (reported as part of the primary government) if the unit's governing body is substantively the same as the primary government and/or the component unit provides substantially all of its services directly to the state. The component unit's financial data is reported with the nonmajor Enterprise Funds in the state's financial statements.

The Texas Treasury Safekeeping Trust Company (Company) was created in 1986 by the 69th Legislature to provide a separate legal entity for the State Treasurer. The incorporation of the trust company was necessary to obtain direct access to services provided by the Federal Reserve System, namely wire and custody services. The Company's organizational structure was changed by TEX. GOV'T CODE ANN. §§ 404.101, 404.103 – 404.116, making the company a blended component unit for reporting purposes. Separate financial statements may be obtained by contacting the Company at Rusk State Office Bldg, 208 East 10th Street, Austin, Texas 78701.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely presented in the Component Units column of the state's financial statements.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The State of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2003. Separate financial statements may be obtained by contacting the State Bar of Texas at P.O. Box 12487, Austin, Texas 78710.

Texas Agricultural Finance Authority (Authority) is a legally separate entity within the Texas Department of Agriculture (TDA) and is financially accountable to the state. The Governor with the advice and consent of the Senate appoints seven of the nine members of the Board of Direc-

tors. The Commissioner of TDA administers the Authority with the assistance of the board. The Authority was created to provide financial assistance for the expansion, development, and diversification of agricultural businesses. The Authority primarily benefits the citizens of Texas. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas On-Site Wastewater Treatment Research Council (Council) awards competitive grants and contracts to support applied research, demonstration projects, and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the State of Texas. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the Texas Commission on Environmental Quality's combined statements.

Texas Appraiser Licensing and Certification Board (Board) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The Governor appoints the members of the Board. TREC provides administrative support to the Board, but has no authority to approve or modify the Board's budget or to set their fees. Although the Board is not fiscally dependent on TREC, to exclude them would result in presentation of incomplete financial statements. The Board serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (Foundation) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54-633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the Governor with the advice and consent of the Senate, and three members appointed jointly by the Comptroller and the member who is appointed by the Governor. Separate financial statements may be obtained by

contacting the State Comptroller of Public Accounts, Texas Tomorrow Fund at 111 E. 17th Street, Austin, Texas 78774.

Texas Guaranteed Student Loan Corporation (Corporation) is a public non-profit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the Governor with the advice and consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one-time appropriation of \$1.5 million to fund initial startup operations. The Corporation is reported for the year ended September 30, 2003. Separate financial statements may be obtained by contacting the Texas Guaranteed Student Loan Corporation at P.O. Box 201725, Austin, Texas 78720-1725.

Texas Boll Weevil Eradication Foundation, Inc. (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the Texas Department of Agriculture (TDA), and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees, and debt. The Foundation is reported for the year ended December 31, 2002. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

The Texas Water Resources Finance Authority (Authority) was created by the Texas Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A Board of Directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The Board, through a sales and servicing agreement, wholly manages the Authority's operations. Financial statements may be obtained by contacting the TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Small Business Industrial Development Corporation (Corporation) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic

development in the State of Texas. The Texas Department of Economic Development (TxED) is the oversight agency for the Corporation and is its reporting entity. TxED's Governing Board members serve ex-officio as the directors of the Corporation. The Corporation's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the TxED at P.O. Box 12728, Austin, Texas 78711-2728.

The Texas Economic Development Corporation (Corporation), a non-profit corporation, was created to assist, promote, develop, and advance economic development in the State of Texas. The Corporation is not fiscally dependent on the Texas Department of Economic Development (TxED); however, it would be misleading to exclude them from the primary government's financial statements. TxED's Governing Board members serve as the directors of the Corporation. The entity's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the TxED at P.O. Box 12728, Austin, Texas 78711-2728.

M.D. Anderson Cancer Center Services Corporation (Corporation) is governed by a body appointed by the president of University of Texas M. D. Anderson Cancer Center. The Corporation's mission is to benefit the Cancer Center by providing, directly or indirectly, assistance and benefits, financial or otherwise, to the Cancer Center through whatever means determined by the Board of Directors, including, but not limited to, making distributions or providing services. In accomplishment of such purposes, the Corporation emphasizes clinical, educational, and scientific aspects of cancer care throughout the United States and in foreign countries. Separate financial statements may be obtained by contacting the Corporation at 811 Dallas Avenue, Houston, Texas 77002.

The U.T. Southwestern Moncrief Cancer Center (Center) is a non-profit corporation governed by a three-member board appointed by the President of the University of Texas Southwestern Medical Center. The Center exists for charitable, educational, and scientific purposes, and provides radiation oncology treatment services at three facilities. The System may establish, own and operate one or more cancer therapy centers, or enter into arrangements with

other providers of cancer care. Separate financial statements may be obtained by contacting the Center at 1450 Eighth Avenue, Fort Worth, Texas 76104.

The Texas Universities Health Plan, Inc. (TUHP) is governed by a body appointed by the University of Texas System. TUHP is a non-profit corporation organized and administered for the purpose of assisting and acting on behalf of the University of Texas System in establishing and operating a health maintenance organization. The TUHP is reported for the year ended December 31, 2002. Separate financial statements may be obtained by contacting TUHP's administrative office at 701 Brazos Street, Suite 500, Austin, Texas 78701.

Surplus Lines Stamping Office of Texas (Office) is a non-profit corporation created by the Texas Legislature to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance. TDI's Commissioner appoints the board. The Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Office. TDI sets the fee amount to be assessed to the agents. The Office is reported for the year ended December 31, 2002. Separate financial statements may be obtained at P.O. Box 160170, Austin, Texas 78716-0170.

The Texas Health Reinsurance System reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's Commissioner appoints the nine-member board. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

The Texas Health Insurance Risk Pool was created to provide access to quality health care at a minimum cost to the public, to relieve the insurable population of the disruptive cost of sharing coverage, and to maximize reliance on strategies of managed care proven by the private sector. The Board of Directors, composed of nine members, is appointed by TDI's Commissioner. Financial statements may be obtained at 2512 South IH 35, Suite 110, Austin, Texas 78704.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Non-Profit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income resi-

dents of Texas. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, however, the state is not financially accountable for the entity.

The Life, Accident, Health, and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident, and health insurance policies and annuity contracts because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's Commissioner appoints a board of directors of the Association consisting of nine members.

The Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims", as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in this state. The nine-member board of directors is appointed by TDI's Commissioner.

Texas Mutual Insurance Company (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the State of Texas, and also serves as the insurer of last resort. It is legally separate and fiscally independent of the state but the state appoints a voting majority of the Texas Mutual's board.

River Authorities are political subdivisions that are created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Texas Legislature to create

districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power and all other useful purposes, the reclamation and irrigation of its arid, semiarid and other lands needing irrigation, the reclamation of drainage of its overflowed lands, and other lands needing drainage, the conservation and development its forests, water and hydro-electric power, the navigation of its inland and coastal waters, and the preservation and conservation of all such natural resources of the state (Texas Constitution, Article XVI, Section 59). Although there are seventeen river/water authorities, the State of Texas has voting majority for the following fourteen:

- Angelina-Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe Blanco River Authority
- Lavaca Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River River Authority
- Sabine River Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

Note 20 Deficit Fund Balance/Net Assets

A. Primary Government

Governmental Funds

The following governmental funds reported a deficit fund balance that is primarily due to a timing difference in posting liability accruals and the corresponding asset.

Major Governmental Funds:

- The General Fund reported a deficit of \$1,283,787,630.

Non-Major Special Revenue Funds:

- The State Text Book Fund reported a deficit of \$203,296,246.

Non-Major Capital Project Funds:

- The Texas Department of Health Project Fund reported a deficit of \$67,891.

Proprietary Funds

The Texas Workforce Commission Unemployment Trust Fund Accounts, a non-major enterprise fund, reported a deficit of \$81,565,338. Net Assets in this fund were negative at year-end because unemployment taxes failed to keep pace with benefit payments. Texas requested and obtained federal loan advances from the Federal Unemployment Account to continue paying unemployment insurance benefits.

The Texas Prepaid Higher Education Tuition Board, a non-major enterprise fund, reported a deficit of \$236,083,753. This deficit was caused by under performance of investments and a 16.7 percent average tuition increase at public senior colleges for the 2003/2004 academic year. Both the actuary and the investment counsel agree that given the long-term nature of the program, this unfunded liability should be eliminated in the future as investment earnings improve and tuition increases moderate.

Fiduciary Funds

The Retired School Employees Group Insurance Trust Fund reported a deficit of \$82,967,486. This deficit resulted from a depletion of resources due to increased membership and higher medical pharmacy claims cost in the Health Care Trust Fund – Retired Plan.

B. Discretely Presented Component Units

The Texas Appraiser Licensing and Certification Board, a component unit of the Texas Real Estate Commission, reported a deficit Unrestricted Net Assets of \$12,208. This results from recording long-term liabilities for which assets have not yet been recorded.

The Texas Boll Weevil Eradication Foundation, Inc., a component unit of the Texas Agricultural Finance Authority, reported a deficit Unrestricted Net Assets of \$116,297,083. This results from an allowance for uncollect-

ible accounts in prior years in the Texas Agricultural Finance Authority loan program. To reduce the risk of future allowances, the authority board has made lending criteria more stringent and will strictly adhere to the established policies. The 76th Legislature adopted legislation that allows a larger pool of eligible borrowers into the financial assistance program. With the current performing commitments and the approved expansion, the program has the ability to provide earnings for future uncollectible allowances, and offset the current deficit in the loan program.

Note 21 Tobacco Settlement

The State of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15 billion over the first 25 years of the agreement. The actual amounts of the annual payments are subject to adjustments for domestic tobacco sales, inflation and any other court-ordered factors. Therefore, the state does not record a receivable for the future annual payments. Actual tobacco settlement revenues received in fiscal year 2002 was \$493,591,186 and \$536,313,900 in fiscal year 2003. Cumulative actual tobacco settlement revenues received as of fiscal year 2003 were \$2,801,480,620.

Note 22 Donor-Restricted Endowments

The State of Texas has donor-restricted endowments with net appreciation of \$89.7 million on investments which are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the Donor-Restricted Endowments schedule. True endowments are those funds that must be maintained inviolate and in perpetuity. Term endowments are similar to true endowments except that, upon the passage of a stated period of time, the principal may be expended. Expendable

funds are those funds that may be expended for either a stated purpose (restricted) or for a general purpose (unrestricted) as per the endowment gift terms. Non-expendable funds may not be expended. The policies of each individual state agency govern the authorizing and spending of net appreciation on investments; there is no state law that governs endowment spending. Most state agencies have a target distribution rate per unit of spendable income between 3 to 6 percent of the average market value of the endowment fund for the preceding 12 quarters.

Donor-Restricted Endowments (In Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation*	Reported in Net Assets
True Endowments	\$ 37,348	Restricted for Nonexpendable
True Endowments	50,944	Restricted for Expendable
Term Endowments	43	Restricted for Nonexpendable
Term Endowments	1,320	Restricted for Expendable
	<u>\$ 89,655</u>	

* There was a negative fair value adjustment totaling (\$9,232) not included in the figures above for Fiscal Year 2003.

Note 23 Extraordinary Items

The state reports extraordinary items of \$36.5 million in the current fiscal year. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The University of Texas System, presented in the Colleges and Universities, a major Enterprise Fund, reports net extraordinary revenues of \$36.5 million as a result of the continued reimbursement of cost associated with damages sustained during Tropical Storm Allison in June 2001. Receipts have been realized from commercial insurance coverage and from the United States Federal Emergency Management Agency (FEMA). Additional insurance and FEMA proceeds are anticipated; however, the amounts and timing of such receipts cannot be reasonably predicted.

The Texas State University System, presented in the Colleges and Universities, a major Enterprise Fund, reports \$19 thousand received from FEMA for flood damage.

Note 24 Taxes Receivable

Taxes receivable represent amounts due to the state at August 31, 2003 for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "non-current". The receivables have been recorded net of allowances for uncollectible accounts. Revenue is recorded on the governmental fund financial statements using the modified accrual basis of accounting for amounts due to the State of Texas at August 31, 2003 that are considered as "available" (e.g. received by the state within approximately 60 days after that date). Revenue earned but not "available" at August 31, 2003 is recorded as deferred revenue. Prepaid taxes are also recorded as deferred revenue.

On the government-wide financial statements a corresponding amount is recorded as revenue using the accrual basis of accounting, which includes revenue earned at fiscal year end regardless if it is available. Deferred revenue includes only the prepaid taxes that have not been earned by fiscal year end. Taxes receivable are the same for both modified and full accrual basis.

Taxes Receivable, as reported in the General Fund Balance Sheet – Governmental Funds, are detailed by tax type as follows:

Taxes Receivable by Tax Type August 31, 2003 (In Thousands)

Tax Type	Net Taxes Receivable
Sales and Use Tax	\$ 1,013,801
Motor Vehicle & MFG Housing	128,958
Motor Fuels	92,039
Oil & Natural Gas Production	136,876
Franchise	442,942
Insurance	79,327
Cigarette & Tobacco	4,475
Other	131,120
Total Net Taxes Receivable	<u>\$ 2,029,538</u>
As Reported on the Financial Statements	
Current Taxes Receivable	\$ 1,565,535
Non-Current Taxes Receivable	464,003
Total Net Taxes Receivable	<u>\$ 2,029,538</u>

Required Supplementary Information Other than MD&A



State of Texas
Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$27,500,886	\$25,871,178	\$26,652,888	\$ 781,710
Federal	14,364,098	18,381,663	17,789,277	(592,386)
Licenses, Fees, and Permits	2,048,254	2,162,615	1,616,226	(546,389)
Interest and Other Investment Income	428,519	316,810	100,843	(215,967)
Land Income	2,473	5,448	11,636	6,188
Settlement of Claims	529,577	535,562	554,023	18,461
Sales of Goods and Services	552,818	809,124	824,673	15,549
Other	1,665,294	2,442,078	1,453,621	(988,457)
Total Revenues	47,091,919	50,524,478	49,003,187	(1,521,291)
EXPENDITURES				
General Government	1,462,145	1,909,172	1,778,432	130,740
Education	14,514,283	15,400,817	13,993,736	1,407,081
Employee Benefits	731	794	787	7
Health & Human Services	18,834,554	20,882,605	21,490,000	(607,395)
Public Safety and Corrections	3,411,669	3,738,017	3,677,364	60,653
Transportation	16,879	17,081	28,838	(11,757)
Natural Resources & Recreation	795,038	884,953	769,732	115,221
Regulatory	208,610	222,231	261,529	(39,298)
Total Expenditures	39,243,909	43,055,670	42,000,418	1,055,252
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	7,848,010	7,468,808	7,002,769	(466,039)
Other Financing Sources (Uses)				
Transfer In	971,819	1,137,787	1,819,187	681,400
Transfer Out	(7,847,359)	(7,624,376)	(10,355,724)	(2,731,348)
Sale of Capital Assets	3,488	2,636	4,138	1,502
Available Beginning Balances*	1,349,121	1,349,121	2,142,019	792,898
Total Other Financing Sources (Uses)	(5,522,931)	(5,134,832)	(6,390,380)	(1,255,548)
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under) Expenditures				
and Other Financing Uses	\$ 2,325,079	\$ 2,333,976	\$ 612,389	\$ (1,721,587)

* Available Beginning Balance
FY 03 Beginning Cash Balance
Prior Period Adjustment
FY 03 Beginning Balance, as adjusted

\$ 2,411,740	\$ 2,465,852
(1,062,619)	(323,833)
<u>\$ 1,349,121</u>	<u>\$ 2,142,019</u>

State of Texas
Budgetary Comparison Schedule
Major Special Revenue Fund – State Highway Fund
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 31,556	\$ 30,942	\$ 31,900	\$ 958
Federal	2,462,433	2,345,923	2,691,448	345,525
Licenses, Fees, and Permits	813,902	787,318	825,963	38,645
Interest and Other Investment Income	9,317	14,361	22,359	7,998
Land Income	1,337	4,599	1,965	(2,634)
Settlement of Claims	5,018	6,964	8,949	1,985
Sales of Goods and Services	142,002	176,645	149,534	(27,111)
Other	2,516	22,591	726	(21,865)
Total Revenues	3,468,081	3,389,343	3,732,844	343,501
EXPENDITURES				
General Government	6,546	7,293	10,653	(3,360)
Public Safety and Corrections	336,694	361,416	393,729	(32,313)
Transportation	5,271,465	5,313,963	5,162,503	151,460
Total Expenditures	5,614,705	5,682,672	5,566,885	115,787
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(2,146,624)	(2,293,329)	(1,834,041)	459,288
Other Financing Sources (Uses)				
Transfer In	2,136,380	2,066,577	2,085,769	19,192
Transfer Out			(10,950)	(10,950)
Sale of Capital Assets	23,746	10,061	13,720	3,659
Available Beginning Balances*	(126,057)	(126,057)	568,722	694,779
Total Other Financing Sources (Uses)	2,034,069	1,950,581	2,657,261	706,680
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under) Expenditures				
and Other Financing Uses	\$ (112,555)	\$ (342,748)	\$ 823,220	\$1,165,968
* Available Beginning Balance				
FY 03 Beginning Cash Balance			\$ 306,409	
Prior Period Adjustment			262,313	
FY 03 Beginning Balance, as adjusted			\$ 568,722	

Note to Required Supplementary Information – Budgetary Comparison Schedule

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of these differences is required and is presented below.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2003 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 612,389	\$ 823,220
Basis of Accounting Differences:		
Receivables and Deferred Revenues	(599,854)	(22,037)
Payables	(150,346)	(233,632)
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Source	(2,142,019)	(568,722)
Federal Program Revenues Not Budgeted	2,379,793	
Federal Program Expenditures Not Budgeted	(2,379,793)	
Other Revenues Not Budgeted	139,905	
Other Expenditures Not Budgeted	(292,298)	
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	4,079	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – GAAP Basis	<u>\$(2,428,144)</u>	<u>\$ (1,171)</u>

The major reconciling items between the Budgetary Comparison Schedule Actual and the GAAP Financial Statements are due to the following:

Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP Financial Statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

Perspective Differences

Certain revenues and expenditures, including debt service, the Federal Food Stamps Program and the Disproportionate Share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as Other Financing Sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as Financing Sources on the GAAP Financial Statements.

Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budget Comparison Schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

- General Fund – The variance of \$607 million in Health & Human Services is the result of increased expenditures made from the excess of federal revenues received over estimates for agencies in this particular function.
- State Highway Fund – The variances totaling \$36 million is the result of expenditures not made from budgeted expenditures but from the beginning fund balance which is included in Other Financing Sources.
- Other variances are composed of authorized expenditures paid from receipts that came in and were in excess of the estimated appropriated revenues.

Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the State has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the State:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the State has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10% of the Interstate system and 5% of the Non-Interstate system (US, State, and FM roadways). For each section of highway observed, twenty-one elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element

within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20%, 2=40%, 3=60%, 4=80%, 5=100%).

Assessed Conditions

The Texas Highway Commission has adopted a minimum condition level of 80% for the Interstate system and 75% for the Non-Interstate system.

For the current year and two prior years, the results of the condition assessments are as follows:

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)
2003	81.3%	78.5%
2002	82.5%	78.7%
2001	85.0%	78.3%

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT’s estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures. Since GASB 34 only became effective for fiscal year 2002, estimates prior to 2002 are not available. However, the actual maintenance expenditures are presented for comparison.

Maintenance Cost (In Thousands)			
	2003	2002	2001
Interstate Highways			
Estimate	\$ 400,000	\$ 210,000	N/A
Actual	\$ 330,766	\$ 386,032	\$ 283,502
Other Highways			
Estimate	\$1,450,000	\$1,444,000	N/A
Actual	\$1,483,210	\$1,489,744	\$1,292,071

Factors Affecting Condition Assessments

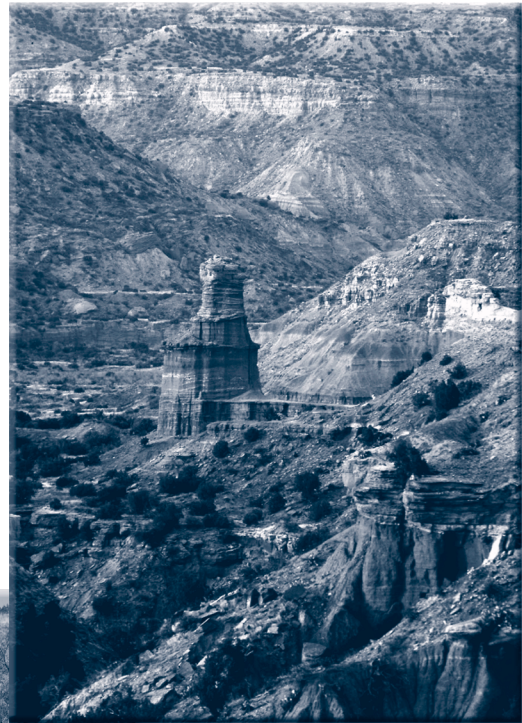
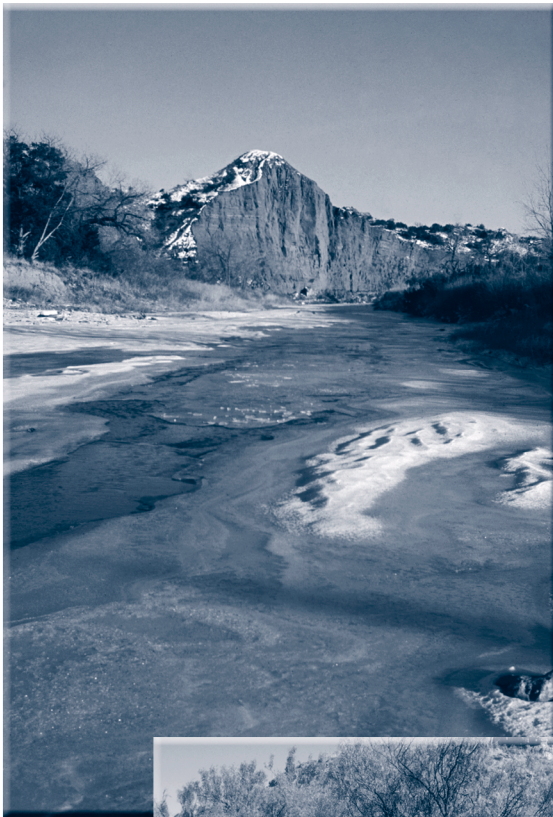
Although TxDOT has adopted condition levels for the highway system, this process is relatively new and represents a different approach to maintaining the highway system. (As time progresses, TxDOT hopes to achieve a greater correlation between the estimated and actual maintenance expenditures needed to maintain the highway system at or above the adopted condition levels.)

In reviewing the condition assessments, it is also necessary to consider the effects of other factors such as increases in traffic, legislative mandates, and environmental effects (rainfall, drought, freeze, thaw, etc.) which may have a major impact on needed funds and the condition of Texas roads.

Other Supplementary Information



Combining Financial Statements



Governmental Funds



State of Texas
Combining Balance Sheet – Nonmajor Governmental Funds
August 31, 2003 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$1,014,989	\$ 160,400	\$ 157,874	\$ 627	\$1,333,890
Securities Lending Collateral				74,673	74,673
Investments	36,219	3,563		12,668	52,450
Restricted Cash and Cash Equivalents		1,202			1,202
Receivables:					
Federal	542		1,606		2,148
Accounts	462				462
Interest and Dividends	156,957	932	18	2,599	160,506
Other				4,279	4,279
Due From Other Funds	97,253	56	53,935		151,244
Inventories	541		807		1,348
Loans and Contracts	97,685				97,685
Other Current Assets	37				37
Total Current Assets	<u>1,404,685</u>	<u>166,153</u>	<u>214,240</u>	<u>94,846</u>	<u>1,879,924</u>
Non-Current Assets:					
Investments	58	86,216		821,603	907,877
Restricted:					
Receivables	126,156				126,156
Loans and Contracts	488,150				488,150
Loans and Contracts	166,580				166,580
Total Non-Current Assets	<u>780,944</u>	<u>86,216</u>	<u>0</u>	<u>821,603</u>	<u>1,688,763</u>
Total Assets	<u>\$2,185,629</u>	<u>\$ 252,369</u>	<u>\$ 214,240</u>	<u>\$ 916,449</u>	<u>\$3,568,687</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables:					
Accounts	\$ 230,006	\$	\$ 13,008	\$ 4,813	\$ 247,827
Payroll	7,566		194		7,760
Federal	82				82
Other	672		654		1,326
Deferred Revenues	64,480				64,480
Due To Other Funds	135,932		49,762		185,694
Interfund Payable	36		80		116
Obligations/ Securities Lending				74,673	74,673
Total Current Liabilities	<u>438,774</u>	<u>0</u>	<u>63,698</u>	<u>79,486</u>	<u>581,958</u>
Non-Current Liabilities:					
Interfund Payable	841		1,985		2,826
Total Non-Current Liabilities	<u>841</u>	<u>0</u>	<u>1,985</u>	<u>0</u>	<u>2,826</u>
Total Liabilities	<u>439,615</u>	<u>0</u>	<u>65,683</u>	<u>79,486</u>	<u>584,784</u>
Fund Balances:					
Reserved	779,445	252,369	134,927	378,522	1,545,263
Unreserved	966,569		13,630	458,441	1,438,640
Total Fund Balances	<u>1,746,014</u>	<u>252,369</u>	<u>148,557</u>	<u>836,963</u>	<u>2,983,903</u>
Total Liabilities and Fund Balances	<u>\$2,185,629</u>	<u>\$ 252,369</u>	<u>\$ 214,240</u>	<u>\$ 916,449</u>	<u>\$3,568,687</u>

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Governmental Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Federal	\$ 21,974	\$ 2,910	\$ 21,487	\$	\$ 46,371
Licenses, Fees, and Permits	109,253				109,253
Interest and Other Investment Income	856,456	15,916	2,637	99,761	974,770
Land Income	8,885			12	8,897
Settlement of Claims			25		25
Sales of Goods and Services	3,879		892		4,771
Other	5,993		413	(3)	6,403
Total Revenues	<u>1,006,440</u>	<u>18,826</u>	<u>25,454</u>	<u>99,770</u>	<u>1,150,490</u>
EXPENDITURES					
Current:					
General Government	116,249	32	3,682	2,372	122,335
Education	1,727,754	789	1,215		1,729,758
Employee Benefits	11,246				11,246
Health & Human Services	463,163				463,163
Public Safety & Corrections	82,701		34,227		116,928
Transportation	2,118		3,271		5,389
Natural Resources & Recreation	38,205		2,172	18	40,395
Regulatory	50,886				50,886
Capital Outlay	2,362		108,731		111,093
Debt Service:					
Principal	313	362,638			362,951
Interest		196,124			196,124
Total Expenditures	<u>2,494,997</u>	<u>559,583</u>	<u>153,298</u>	<u>2,390</u>	<u>3,210,268</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>(1,488,557)</u>	<u>(540,757)</u>	<u>(127,844)</u>	<u>97,380</u>	<u>(2,059,778)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	1,222,808	612,973	21,726	30,928	1,888,435
Transfer Out	(419,760)	(76,436)	(36,648)	(23,208)	(556,052)
Bonds and Notes Issued	200,064	(356)	183,710		383,418
Bond Proceeds for Advance Refunding		164,395			164,395
Payments to Escrow for Advance Refunding		(164,395)			(164,395)
Sale of Capital Assets	2,805				2,805
Total Other Financing Sources (Uses)	<u>1,005,917</u>	<u>536,181</u>	<u>168,788</u>	<u>7,720</u>	<u>1,718,606</u>
Net Change in Fund Balances	<u>(482,640)</u>	<u>(4,576)</u>	<u>40,944</u>	<u>105,100</u>	<u>(341,172)</u>
Fund Balances, September 1, 2002	2,257,303	256,945	106,960	731,863	3,353,071
Restatements	(28,649)		653		(27,996)
Fund Balances, September 1, 2002, as Restated	<u>2,228,654</u>	<u>256,945</u>	<u>107,613</u>	<u>731,863</u>	<u>3,325,075</u>
Fund Balances, August 31, 2003	<u>\$ 1,746,014</u>	<u>\$ 252,369</u>	<u>\$ 148,557</u>	<u>\$ 836,963</u>	<u>\$ 2,983,903</u>

Nonmajor Special Revenue Funds

The **Economic Stabilization Fund** receives one-half of any unencumbered positive balance in the General Revenue Fund on the last day of the preceding biennium and an amount equal to 75 percent of excess of oil and gas production taxes received greater than the excess of oil and gas production taxes received in fiscal year 1987 and any other money appropriated to the fund by the Legislature. The fund may be used to eliminate temporary cash deficiency in the General Revenue Fund, or may be appropriated for any purpose by two-thirds vote of the Legislature.

The **Student Loan Funds** receive proceeds from the issuance of bonds that are used to make loans to qualifying students who have been admitted to attend any institution of higher education within the State of Texas.

The **Available School Fund** receives earnings of the Permanent School Fund and allocations of motor fuel taxes to support public schools.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development Bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Money in the funds are invested.

The **State Text Book Fund** receives money from the Available School Fund for the purpose of providing free textbooks to children attending public schools.

State of Texas
Combining Balance Sheet – Nonmajor Special Revenue Funds
August 31, 2003 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Available School Fund	Water Development Funds	State Text Book Fund	Other Nonmajor Special Revenue Funds*	Totals
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 560,487	\$ 199,302	\$ 33,998	\$ 80,455	\$ 7,833	\$ 132,914	\$1,014,989
Investments						36,219	36,219
Receivables:							
Federal		269				273	542
Accounts					71	391	462
Interest and Dividends	941	25,287	130,004	640	15	70	156,957
Due From Other Funds			95,458			1,795	97,253
Inventories						541	541
Loans and Contracts		95,979		748		958	97,685
Other Current Assets						37	37
Total Current Assets	<u>561,428</u>	<u>320,837</u>	<u>259,460</u>	<u>81,843</u>	<u>7,919</u>	<u>173,198</u>	<u>1,404,685</u>
Non-Current Assets:							
Investments						58	58
Restricted:							
Receivables		126,155				1	126,156
Loans and Contracts		488,150					488,150
Loans and Contracts				151,023		15,557	166,580
Total Non-Current Assets	<u>0</u>	<u>614,305</u>	<u>0</u>	<u>151,023</u>	<u>0</u>	<u>15,616</u>	<u>780,944</u>
Total Assets	<u>\$ 561,428</u>	<u>\$ 935,142</u>	<u>\$ 259,460</u>	<u>\$ 232,866</u>	<u>\$ 7,919</u>	<u>\$ 188,814</u>	<u>\$2,185,629</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Current Liabilities:							
Payables:							
Accounts	\$ 15	\$ 124	\$ 8,639	\$ 2	\$ 211,109	\$ 10,117	\$ 230,006
Payroll			226		106	7,234	7,566
Federal		82					82
Other						672	672
Deferred Revenues			64,046			434	64,480
Due To Other Funds		56	124,681	298		10,897	135,932
Interfund Payable						36	36
Total Current Liabilities	<u>15</u>	<u>262</u>	<u>197,592</u>	<u>300</u>	<u>211,215</u>	<u>29,390</u>	<u>438,774</u>
Non-Current Liabilities							
Interfund Payable						841	841
Total Non-Current Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>841</u>	<u>841</u>
Total Liabilities	<u>15</u>	<u>262</u>	<u>197,592</u>	<u>300</u>	<u>211,215</u>	<u>30,231</u>	<u>439,615</u>
Fund Balances:							
Reserved for:							
Encumbrances			427		111	25,888	26,426
Inventories						541	541
Imprest Accounts						63	63
Loans and Contracts		584,129		151,771		16,515	752,415
Unreserved:							
Designated for:							
General Government	561,413					58,391	619,804
Regulatory						11,954	11,954
Health & Human Services						8,324	8,324
Natural Resources & Recreation				80,795		28,365	109,160
Education		350,751	61,441		(203,407)	1,739	210,524
Transportation						564	564
Public Safety & Corrections						5,942	5,942
Employee Benefits						297	297
Total Fund Balances	<u>561,413</u>	<u>934,880</u>	<u>61,868</u>	<u>232,566</u>	<u>(203,296)</u>	<u>158,583</u>	<u>1,746,014</u>
Total Liabilities and Fund Balances	<u>\$ 561,428</u>	<u>\$ 935,142</u>	<u>\$ 259,460</u>	<u>\$ 232,866</u>	<u>\$ 7,919</u>	<u>\$ 188,814</u>	<u>\$2,185,629</u>

* Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Special Revenue Funds column. These funds do not meet the materiality threshold for separate column presentation.

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Special Revenue Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Available School Fund	Water Development Funds	State Text Book Fund	Other Nonmajor Special Revenue Funds*	Totals
REVENUES							
Federal	\$	\$ 728	\$	\$ 19,147	\$	\$ 2,099	\$ 21,974
Licenses, Fees, and Permits				171	450	108,632	109,253
Interest and Other Investment Income	18,264	49,635	780,825	1,600	218	5,914	856,456
Land Income			3,966			4,919	8,885
Sales of Goods and Services					2,684	1,195	3,879
Other		(1,234)				7,227	5,993
Total Revenues	<u>18,264</u>	<u>49,129</u>	<u>784,791</u>	<u>20,918</u>	<u>3,352</u>	<u>129,986</u>	<u>1,006,440</u>
EXPENDITURES							
Current:							
General Government	23		338			115,888	116,249
Education		295	1,475,657		251,727	75	1,727,754
Employee Benefits						11,246	11,246
Health & Human Services	446,449					16,714	463,163
Public Safety & Corrections						82,701	82,701
Transportation						2,118	2,118
Natural Resources & Recreation				28,165		10,040	38,205
Regulatory						50,886	50,886
Capital Outlay			206		42	2,114	2,362
Debt Service:							
Principal			278		35		313
Total Expenditures	<u>446,472</u>	<u>295</u>	<u>1,476,479</u>	<u>28,165</u>	<u>251,804</u>	<u>291,782</u>	<u>2,494,997</u>
Excess (Deficiency) of Revenues							
Over (Under) Expenditures	<u>(428,208)</u>	<u>48,834</u>	<u>(691,688)</u>	<u>(7,247)</u>	<u>(248,452)</u>	<u>(161,796)</u>	<u>(1,488,557)</u>
OTHER FINANCING SOURCES (USES)							
Transfer In	83,568	63,005	713,593	53,941	95,926	212,775	1,222,808
Transfer Out		(244,653)	(96,264)	(28,290)	(3,380)	(47,173)	(419,760)
Bonds and Notes Issued		177,942		22,121		1	200,064
Sale of Capital Assets						2,805	2,805
Total Other Financing Sources (Uses)	<u>83,568</u>	<u>(3,706)</u>	<u>617,329</u>	<u>47,772</u>	<u>92,546</u>	<u>168,408</u>	<u>1,005,917</u>
Net Change in Fund Balances	<u>(344,640)</u>	<u>45,128</u>	<u>(74,359)</u>	<u>40,525</u>	<u>(155,906)</u>	<u>6,612</u>	<u>(482,640)</u>
Fund Balances, September 1, 2002	906,053	889,752	147,681	192,041	(47,390)	169,166	2,257,303
Restatements			(11,454)			(17,195)	(28,649)
Fund Balances, September 1, 2002, as Restated	<u>906,053</u>	<u>889,752</u>	<u>136,227</u>	<u>192,041</u>	<u>(47,390)</u>	<u>151,971</u>	<u>2,228,654</u>
Fund Balances, August 31, 2003	<u>\$ 561,413</u>	<u>\$ 934,880</u>	<u>\$ 61,868</u>	<u>\$ 232,566</u>	<u>\$ (203,296)</u>	<u>\$ 158,583</u>	<u>\$ 1,746,014</u>

* Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Special Revenue Funds column. These funds do not meet the materiality threshold for separate column presentation.

State of Texas
Budgetary Comparison Schedule
Nonmajor Special Revenue Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Economic Stabilization Fund			
	Budgetary Amounts		Actual Amounts	Final To
	Original	Final	Budgetary Basis	Actual Variance
REVENUES				
Federal	\$	\$	\$	\$
Licenses, Fees, and Permits				
Interest and Other Investment Income	41,510	16,728	19,440	2,712
Land Income				
Settlement of Claims				
Sales of Goods and Services				
Other				
Total Revenues	41,510	16,728	19,440	2,712
EXPENDITURES				
General Government	3,081	3,081	9	3,072
Education				
Employee Benefits				
Health & Human Services	446,449	446,449	446,448	1
Public Safety and Corrections				
Natural Resources & Recreation				
Regulatory				
Total Expenditures	449,530	449,530	446,457	3,073
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(408,020)	(432,802)	(427,017)	5,785
Other Financing Sources (Uses)				
Transfer In	232,916	83,568	83,568	
Transfer Out				
Sale of Capital Assets				
Available Beginning Balances	903,936	903,936	906,053	2,117
Total Other Financing Sources (Uses)	1,136,852	987,504	989,621	2,117
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under) Expenditures				
and Other Financing Uses	\$ 728,832	\$ 554,702	\$ 562,604	\$ 7,902

Student Loan Funds				Available School Fund			
Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
Original	Final			Original	Final		
\$	\$	\$ 1,447	\$ 1,447	\$	\$	\$	\$
2,321	4,005	49,007	45,002	923,087	739,331	798,682	59,351
				2,538	1,746	3,966	2,220
6							
176	41	(1,235)	(1,276)				
2,503	4,046	49,219	45,173	925,625	741,077	802,648	61,571
				1,250	1,250	742	508
		199	(199)	1,495,410	1,496,452	1,483,460	12,992
0	0	199	(199)	1,496,660	1,497,702	1,484,202	13,500
2,503	4,046	49,020	44,974	(571,035)	(756,625)	(681,554)	75,071
		63,005	63,005	714,560	698,820	713,593	14,773
		(66,711)	(66,711)	(115,153)	(223,931)	(96,264)	127,667
49,233	49,233	82,503	33,270	18,110	18,110	(23,016)	(41,126)
49,233	49,233	78,797	29,564	617,517	492,999	594,313	101,314
\$ 51,736	\$ 53,279	\$ 127,817	\$ 74,538	\$ 46,482	\$ (263,626)	\$ (87,241)	\$ 176,385

Concluded on the following two pages

State of Texas
Budgetary Comparison Schedule
Nonmajor Special Revenue Funds (concluded)
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Water Development Funds			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final		
REVENUES				
Federal	\$ 15,459	\$ 17,915	\$ 19,147	\$ 1,232
Licenses, Fees, and Permits		269	171	(98)
Interest and Other Investment Income	139	14,882	1,337	(13,545)
Land Income				
Settlement of Claims				
Sales of Goods and Services				
Other				
Total Revenues	<u>15,598</u>	<u>33,066</u>	<u>20,655</u>	<u>(12,411)</u>
EXPENDITURES				
General Government				
Education				
Employee Benefits				
Health & Human Services				
Public Safety and Corrections				
Natural Resources & Recreation			28,183	(28,183)
Regulatory				
Total Expenditures	<u>0</u>	<u>0</u>	<u>28,183</u>	<u>(28,183)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>15,598</u>	<u>33,066</u>	<u>(7,528)</u>	<u>(40,594)</u>
Other Financing Sources (Uses)				
Transfer In			53,941	53,941
Transfer Out			(6,169)	(6,169)
Sale of Capital Assets				
Available Beginning Balances	<u>92,041</u>	<u>92,041</u>	<u>122,594</u>	<u>30,553</u>
Total Other Financing Sources (Uses)	<u>92,041</u>	<u>92,041</u>	<u>170,366</u>	<u>78,325</u>
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under) Expenditures				
and Other Financing Uses	<u>\$ 107,639</u>	<u>\$ 125,107</u>	<u>\$ 162,838</u>	<u>\$ 37,731</u>

State Text Book Fund				Other Nonmajor Special Revenue Funds			
Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
Original	Final			Original	Final		
\$	\$	\$	\$	\$	\$	\$	\$
400	604	450	(154)	23	19,148	653	(18,495)
1,212	267	237	(30)	7,789	14,928	58,216	43,288
				14,750	2,260	3,830	1,570
						4,940	4,940
2,250	2,700	2,613	(87)	1,198	2,188	1,190	(998)
				89	93,569	1,068	(92,501)
3,862	3,571	3,300	(271)	23,849	132,093	69,897	(62,196)
				31,276	62,678	76,319	(13,641)
(11,650)	(11,254)	100,239	(111,493)	36,637	36,601	870	35,731
				45	3,667	11,163	(7,496)
				30,668	30,939	14,791	16,148
				9,107	9,107	2,124	6,983
				4,203	5,815	1,658	4,157
				34,751	41,237	40,424	813
(11,649)	(11,254)	100,239	(111,493)	146,687	190,044	147,349	42,695
15,511	14,825	(96,939)	(111,764)	(122,838)	(57,951)	(77,452)	(19,501)
115,153	223,931	95,926	(128,005)	7,300	7,300	212,775	205,475
		(3,380)	(3,380)			(47,173)	(47,173)
						2,805	2,805
12,239	12,239	259,961	247,722	130,670	130,670	74,067	(56,603)
127,392	236,170	352,507	116,337	137,970	137,970	242,474	104,504
<u>\$ 142,903</u>	<u>\$ 250,995</u>	<u>\$ 255,568</u>	<u>\$ 4,573</u>	<u>\$ 15,132</u>	<u>\$ 80,019</u>	<u>\$ 165,022</u>	<u>\$ 85,003</u>

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas Opportunity Plan Fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Student Loan Revenue Bond Fund** receives proceeds from the sale of revenue bonds and gifts or grants made to the Texas Higher Education Coordinating Board. Loans may be made from the fund to students qualifying for a loan under Subchapter C, Chapter 52.

The **Texas Military Facilities Commission Refund and Improvement Bond Fund** provides for the payment of principal and interest on the Commission's outstanding revenue bonds. The fund is composed of an Interest and Sinking Fund and a Reserve Fund.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Water Development Board Bond Funds** receive proceeds to pay debt service on the bonds issued for the purpose of providing financial assistance for the construction of water and wastewater related projects, water supply, and sewer services.

The **Texas Park Development Bond Interest and Sinking Fund** receives net receipts from entrance or gate fees and investment receipts. It is used exclusively for the purpose of paying principal of, and interest on, the bonds as they mature and also exchange and collection charges in connection therewith.

State of Texas
Combining Balance Sheet – Nonmajor Debt Service Funds
August 31, 2003 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 156,607	\$ 1,439	\$	\$	\$ 1,203
Investments			3,563		
Restricted Cash and Cash Equivalents				1,202	
Interest and Dividends Receivable	932				
Due From Other Funds			56		
Total Current Assets	<u>157,539</u>	<u>1,439</u>	<u>3,619</u>	<u>1,202</u>	<u>1,203</u>
Non-Current Assets:					
Investments		86,216			
Total Non-Current Assets	<u>0</u>	<u>86,216</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 157,539</u>	<u>\$ 87,655</u>	<u>\$ 3,619</u>	<u>\$ 1,202</u>	<u>\$ 1,203</u>
FUND BALANCES					
Reserved for Debt Service	\$ 157,539	\$ 87,655	\$ 3,619	\$ 1,202	\$ 1,203
Total Fund Balances	<u>\$ 157,539</u>	<u>\$ 87,655</u>	<u>\$ 3,619</u>	<u>\$ 1,202</u>	<u>\$ 1,203</u>

* This fund has activity on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Debt Service Funds.

Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Texas Park Development Bond Interest and Sinking Fund*	Totals
\$ 1,150	\$ 1	\$	\$ 160,400 3,563 1,202 932 56
<u>1,150</u>	<u>1</u>	<u>0</u>	<u>166,153</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>86,216</u> <u>86,216</u>
<u>\$ 1,150</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 252,369</u>
<u>\$ 1,150</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 252,369</u>
<u>\$ 1,150</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 252,369</u>

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Debt Service Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
REVENUES					
Federal	\$ 2,712	\$	\$ 198	\$	\$
Interest and Other Investment Income	6,003	9,706	46	15	126
Total Revenues	<u>8,715</u>	<u>9,706</u>	<u>244</u>	<u>15</u>	<u>126</u>
EXPENDITURES					
Current:					
General Government					32
Education	780		9		
Debt Service:					
Principal	127,065	69,161	7,130	3,615	128,865
Interest	29,151	35,990	749	735	111,323
Total Expenditures	<u>156,996</u>	<u>105,151</u>	<u>7,888</u>	<u>4,350</u>	<u>240,220</u>
(Deficiency) of Revenues					
(Under) Expenditures	<u>(148,281)</u>	<u>(95,445)</u>	<u>(7,644)</u>	<u>(4,335)</u>	<u>(240,094)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	238,727	78,194	5,926	4,284	236,641
Transfer Out	(72,202)	(88)	(5)	(190)	
Bonds and Notes Issued	(365)	2			7
Bond Proceeds for Advance Refunding					164,395
Payments to Escrow for Advance Refunding					(164,395)
Total Other Financing Sources (Uses)	<u>166,160</u>	<u>78,108</u>	<u>5,921</u>	<u>4,094</u>	<u>236,648</u>
Net Change in Fund Balances	<u>17,879</u>	<u>(17,337)</u>	<u>(1,723)</u>	<u>(241)</u>	<u>(3,446)</u>
Fund Balances, September 1, 2002	139,660	108,448	5,342	1,443	1,193
Restatements		(3,456)			3,456
Fund Balances, September 1, 2002, as Restated	<u>139,660</u>	<u>104,992</u>	<u>5,342</u>	<u>1,443</u>	<u>4,649</u>
Fund Balances, August 31, 2003	<u>\$ 157,539</u>	<u>\$ 87,655</u>	<u>\$ 3,619</u>	<u>\$ 1,202</u>	<u>\$ 1,203</u>

Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Texas Park Development Bond Interest and Sinking Fund	Totals
\$ 19	\$	\$ 1	\$ 2,910
19	0	1	15,916
			18,826
			32
			789
15,257	7,570	3,975	362,638
842	15,534	1,800	196,124
16,099	23,104	5,775	559,583
(16,080)	(23,104)	(5,774)	(540,757)
16,546	22,944	9,711	612,973
(8)	(6)	(3,937)	(76,436)
			(356)
			164,395
			(164,395)
16,538	22,938	5,774	536,181
458	(166)	0	(4,576)
692	167		256,945
			0
692	167	0	256,945
\$ 1,150	\$ 1	\$ 0	\$ 252,369

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair, or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Building and Procurement Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Department of Public Safety Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas Mental Health and Mental Retardation Project Funds** are used to pay for the cost of construction, repair, and remodeling for certain mental health facilities.

The **Texas Military Facilities Commission Project Funds** are used to finance renovation and construction of new armories.

The **Texas School for the Deaf Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **School for the Blind and Visually Impaired Project Fund** is used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas Department of Transportation Project Fund** is used to provide financial assistance to counties for roadway projects serving border colonias.

The **Adjutant General's Department Project Fund** is used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas Department of Health Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas State Preservation Board Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

State of Texas
Combining Balance Sheet – Nonmajor Capital Projects Funds
August 31, 2003 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds	Texas Department of Public Safety Project Funds
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 145,253	\$ 10,712	\$ 160	\$	\$	\$
Receivables:						
Federal						
Interest and Dividends		18				
Due From Other Funds		4,923	13,059	10,215	5,772	5,060
Inventories	1			736		
Total Assets	<u>\$ 145,254</u>	<u>\$ 15,653</u>	<u>\$ 13,219</u>	<u>\$ 10,951</u>	<u>\$ 5,772</u>	<u>\$ 5,060</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Current Liabilities:						
Payables:						
Accounts	\$ 30	\$ 888	\$ 1,444	\$ 2,172	\$ 977	\$
Payroll	90					
Other			362	292		
Due To Other Funds	49,699	63				
Interfund Payable	18					
Total Current Liabilities	<u>49,837</u>	<u>951</u>	<u>1,806</u>	<u>2,464</u>	<u>977</u>	<u>0</u>
Non-Current Liabilities:						
Interfund Payable						
Total Non-Current Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>49,837</u>	<u>951</u>	<u>1,806</u>	<u>2,464</u>	<u>977</u>	<u>0</u>
Fund Balances:						
Reserved for:						
Encumbrances	17	4,462	11,010	7,751	4,795	3,695
Inventories	1			736		
Public Finance Authority Programs	95,399					
Unreserved:						
Designated for:						
General Government			403			
Natural Resources & Recreation		10,240				
Public Safety & Corrections						1,365
Undesignated						
Total Fund Balances	<u>95,417</u>	<u>14,702</u>	<u>11,413</u>	<u>8,487</u>	<u>4,795</u>	<u>5,060</u>
Total Liabilities and Fund Balances	<u>\$ 145,254</u>	<u>\$ 15,653</u>	<u>\$ 13,219</u>	<u>\$ 10,951</u>	<u>\$ 5,772</u>	<u>\$ 5,060</u>

* This fund has activity on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Capital Projects Funds.

Texas Mental Health and Mental Retardation Project Funds	Texas Military Facilities Commission Project Funds	Texas School for the Deaf Project Funds	School for Blind and Visually Impaired Project Fund	Texas Department of Transportation Project Fund	Adjutant General's Department Project Fund	Texas Department of Health Project Funds	Texas State Preservation Board Project Funds*	Totals
\$	\$ 1,749	\$	\$	\$	\$	\$	\$	\$157,874
	1,606							1,606
10,426		2,631	598	478	442	331		18
	70							53,935
								807
<u>\$10,426</u>	<u>\$ 3,425</u>	<u>\$ 2,631</u>	<u>\$ 598</u>	<u>\$ 478</u>	<u>\$ 442</u>	<u>\$ 331</u>	<u>\$ 0</u>	<u>\$214,240</u>
\$ 2,127	\$ 1,713	\$ 2,610	\$ 170	\$ 478	\$	\$ 399	\$	\$ 13,008
104								194
								654
					62			49,762
					62			80
<u>2,231</u>	<u>1,713</u>	<u>2,610</u>	<u>170</u>	<u>478</u>	<u>62</u>	<u>399</u>	<u>0</u>	<u>63,698</u>
1,985								1,985
<u>1,985</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,985</u>
<u>4,216</u>	<u>1,713</u>	<u>2,610</u>	<u>170</u>	<u>478</u>	<u>62</u>	<u>399</u>	<u>0</u>	<u>65,683</u>
6,352	31	180	428					38,721
	70							807
								95,399
								403
	1,611				380			10,240
(142)		(159)				(68)		3,356
<u>6,210</u>	<u>1,712</u>	<u>21</u>	<u>428</u>	<u>0</u>	<u>380</u>	<u>(68)</u>	<u>0</u>	<u>(369)</u>
<u>\$10,426</u>	<u>\$ 3,425</u>	<u>\$ 2,631</u>	<u>\$ 598</u>	<u>\$ 478</u>	<u>\$ 442</u>	<u>\$ 331</u>	<u>\$ 0</u>	<u>\$214,240</u>

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Capital Projects Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds	Texas Department of Public Safety Project Funds
REVENUES						
Federal	\$	\$	\$	\$	\$ 12,452	\$
Interest and Other Investment Income	2,356	232				
Settlement of Claims	25					
Sales of Goods and Services						
Other			397			
Total Revenues	<u>2,381</u>	<u>232</u>	<u>397</u>	<u>0</u>	<u>12,452</u>	<u>0</u>
EXPENDITURES						
Current:						
General Government	3,328					
Education						
Transportation						
Public Safety & Corrections				20,262		13,352
Natural Resources & Recreation		2,172				
Capital Outlay	21,028	10,743	4,794	13,071	23,829	
Total Expenditures	<u>24,356</u>	<u>12,915</u>	<u>4,794</u>	<u>33,333</u>	<u>23,829</u>	<u>13,352</u>
(Deficiency) of Revenues						
(Under) Expenditures	<u>(21,975)</u>	<u>(12,683)</u>	<u>(4,397)</u>	<u>(33,333)</u>	<u>(11,377)</u>	<u>(13,352)</u>
OTHER FINANCING SOURCES (USES)						
Transfer In	(82,704)	9,261	11,852	27,064	5,514	14,354
Transfer Out	(39,656)	567	(3,185)	81		4,058
Bonds and Notes Issued	183,710					
Total Other Financing Sources (Uses)	<u>61,350</u>	<u>9,828</u>	<u>8,667</u>	<u>27,145</u>	<u>5,514</u>	<u>18,412</u>
Net Change in Fund Balances	<u>39,375</u>	<u>(2,855)</u>	<u>4,270</u>	<u>(6,188)</u>	<u>(5,863)</u>	<u>5,060</u>
Fund Balances, September 1, 2002	56,042	17,557	6,499	14,675	10,658	
Restatements			644			
Fund Balances, September 1, 2002, as Restated	<u>56,042</u>	<u>17,557</u>	<u>7,143</u>	<u>14,675</u>	<u>10,658</u>	<u>0</u>
Fund Balances, August 31, 2003	<u>\$ 95,417</u>	<u>\$ 14,702</u>	<u>\$ 11,413</u>	<u>\$ 8,487</u>	<u>\$ 4,795</u>	<u>\$ 5,060</u>

Texas Mental Health and Mental Retardation Project Funds	Texas Military Facilities Commission Project Funds	Texas School for the Deaf Project Funds	School for the Blind and Visually Impaired Project Fund	Texas Department of Transportation Project Fund	Adjutant General's Department Project Fund	Texas Department of Health Project Funds	Texas State Preservation Board Project Funds	Totals
\$	\$ 9,035 49	\$	\$	\$	\$	\$	\$	\$ 21,487 2,637
	892							25
5	1						10	892
5	9,977	0	0	0	0	0	10	413
								25,454
							354	3,682
		405	810					1,215
				3,271				3,271
	597				16			34,227
13,031	12,445	6,371	25		45	2,562	787	2,172
13,031	13,042	6,776	835	3,271	61	2,562	1,141	108,731
								153,298
(13,026)	(3,065)	(6,776)	(835)	(3,271)	(61)	(2,562)	(1,131)	(127,844)
23,509		6,797	1,263	3,271	441		1,104	21,726
(1,007)						2,494		(36,648)
								183,710
22,502	0	6,797	1,263	3,271	441	2,494	1,104	168,788
9,476	(3,065)	21	428	0	380	(68)	(27)	40,944
(3,275)	4,777						27	106,960
9								653
(3,266)	4,777	0	0	0	0	0	27	107,613
\$ 6,210	\$ 1,712	\$ 21	\$ 428	\$ 0	\$ 380	\$ (68)	\$ 0	\$ 148,557

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** is a permanent fund established by the legislature from a portion of the money received in the settlement of *The State of Texas v. The American Tobacco Co., et.al.* The corpus of the account has been designated by the legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education, and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches \$2 billion, and each year thereafter, 10 percent of the interest, dividends, and other income accruing from investments during the previous

fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, sec. 17(a) of the constitution.

The **Texas Commission on the Arts Trust Funds** are comprised primarily of the Texas Cultural Endowment Fund accounts held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development, and advance the well being of communities.

State of Texas
Combining Balance Sheet – Nonmajor Permanent Funds
August 31, 2003 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Funds	Other Nonmajor Permanent Funds	Totals
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$	\$	\$ 117	\$ 510	\$ 627
Securities Lending Collateral	40,238	34,191		244	74,673
Investments	6,849	5,819			12,668
Receivables:					
Interest and Dividends	1,406	1,193			2,599
Other	2,313	1,966			4,279
Total Current Assets	<u>50,806</u>	<u>43,169</u>	<u>117</u>	<u>754</u>	<u>94,846</u>
Non-Current Assets:					
Investments	437,511	371,760	9,789	2,543	821,603
Total Non-Current Assets	<u>437,511</u>	<u>371,760</u>	<u>9,789</u>	<u>2,543</u>	<u>821,603</u>
Total Assets	<u>\$ 488,317</u>	<u>\$ 414,929</u>	<u>\$ 9,906</u>	<u>\$ 3,297</u>	<u>\$ 916,449</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Accounts Payable	\$ 2,588	\$ 2,225	\$	\$	\$ 4,813
Obligations/ Securities Lending	40,238	34,191		244	74,673
Total Liabilities	<u>42,826</u>	<u>36,416</u>	<u>0</u>	<u>244</u>	<u>79,486</u>
Fund Balances:					
Reserved for:					
Encumbrances				9	9
General Government		378,513			378,513
Unreserved:					
Designated for:					
Permanent Health Fund	445,491				445,491
Undesignated			9,906	3,044	12,950
Total Fund Balances	<u>445,491</u>	<u>378,513</u>	<u>9,906</u>	<u>3,053</u>	<u>836,963</u>
Total Liabilities and Fund Balances	<u>\$ 488,317</u>	<u>\$ 414,929</u>	<u>\$ 9,906</u>	<u>\$ 3,297</u>	<u>\$ 916,449</u>

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Permanent Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Funds	Other Nonmajor Permanent Funds	Totals
REVENUES					
Interest and Other Investment Income	\$ 53,185	\$ 45,939	\$ 513	\$ 124	\$ 99,761
Land Income				12	12
Other				(3)	(3)
Total Revenues	<u>53,185</u>	<u>45,939</u>	<u>513</u>	<u>133</u>	<u>99,770</u>
EXPENDITURES					
Current:					
General Government	1,258	1,071	43		2,372
Natural Resources & Recreation				18	18
Total Expenditures	<u>1,258</u>	<u>1,071</u>	<u>43</u>	<u>18</u>	<u>2,390</u>
Excess of Revenues					
Over Expenditures	<u>51,927</u>	<u>44,868</u>	<u>470</u>	<u>115</u>	<u>97,380</u>
OTHER FINANCING SOURCES (USES)					
Transfer In		30,928			30,928
Transfer Out	(22,847)		(350)	(11)	(23,208)
Total Other Financing Sources (Uses)	<u>(22,847)</u>	<u>30,928</u>	<u>(350)</u>	<u>(11)</u>	<u>7,720</u>
Net Change in Fund Balances	<u>29,080</u>	<u>75,796</u>	<u>120</u>	<u>104</u>	<u>105,100</u>
Fund Balances, September 1, 2002	<u>416,411</u>	<u>302,717</u>	<u>9,786</u>	<u>2,949</u>	<u>731,863</u>
Fund Balances, August 31, 2003	<u>\$ 445,491</u>	<u>\$ 378,513</u>	<u>\$ 9,906</u>	<u>\$ 3,053</u>	<u>\$ 836,963</u>

Enterprise Funds



Colleges and Universities – Major Enterprise Fund

There are six university system offices and five independent universities in Texas' primary government presented in a single-column as a major fund on the Basic Financial Statements. A combining statement has been prepared to report the breakdown of the following universities:

The University of Texas System
Texas A&M University System
Texas Tech University System
The University of Houston System
Texas State University System
The University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

State of Texas
Combining Statement of Net Assets
Enterprise Funds – Colleges and Universities
August 31, 2003 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 1,776,617	\$ 156,274	\$ 97,052	\$ 151,261	\$ 361,993
Securities Lending Collateral	247,392	179,033			
Investments		166,273	79,332	111,074	
Restricted:					
Cash and Cash Equivalents	294,133	82,235	29,986	(2,979)	29,072
Short Term Investments		243,239	29,638		1,859
Loans and Contracts				5,441	
Receivables:					
Federal	147,658	60,684	7,741	10,689	8,321
Other Intergovernmental	17,240	12,377			
Accounts	147,786	10,941	24,450	16,972	46,604
Interest and Dividends	115,759	6,439	1,748	2,259	430
Gifts	45,970	5,393	11,669	21,168	1,052
Investment Trades	154,812	27,568			
Other	517,574	79,876	418	10,777	4,868
Due From Other Funds	52,485	93,367	57,547	45,388	53,426
Due From Other Component Units		15			
Inventories	39,925	26,218	3,984	2,692	2,048
Prepaid Items		1,155	13,609	18,917	20,409
Loans and Contracts	42,115	15,142	8,349		2,065
Other Current Assets	111,105	11,833	11		10,727
Total Current Assets	<u>3,710,571</u>	<u>1,178,062</u>	<u>365,534</u>	<u>393,659</u>	<u>542,874</u>
Non-Current Assets:					
Restricted:					
Cash and Cash Equivalents	107	1,454	34,331	7,114	32,923
Short Term Investments			12,195		
Investments	12,556,873	466,914	175,170		70,567
Receivables				116	17,625
Loans and Contracts	75,969	6,475	3,454	11,637	1,326
Loans and Contracts		15,625			154
Investments	2,250,203	878,478	333,763	472,824	69,384
Gifts	103,134		51,615		
Capital Assets:					
Non-Depreciable	2,026,001	709,875	235,581	255,887	338,388
Depreciable	6,980,754	2,741,868	998,012	801,907	955,541
Accumulated Depreciation	(3,333,508)	(1,727,709)	(555,192)	(581,011)	(639,406)
Assets Held in Trust	51,365	362			
Other Non-Current Assets	15,498	857			132
Total Non-Current Assets	<u>20,726,396</u>	<u>3,094,199</u>	<u>1,288,929</u>	<u>968,474</u>	<u>846,634</u>
Total Assets	<u>24,436,967</u>	<u>4,272,261</u>	<u>1,654,463</u>	<u>1,362,133</u>	<u>1,389,508</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 138,286	\$ 36,019	\$ 23,014	\$ 14,208	\$ 2,918	\$ 20,603	\$ 2,778,245
1,904						428,329
2,229				8,021	3,159	370,088
37,347	22,261	11,131	664	277	210	504,337
807		10,182	60,597	239	7,632	354,193
				14		5,455
5,521	2,657	749	2,799	106	1,256	248,181
1,834		202		96		31,749
30,235	8,548	4,809	14,690	3,686		308,721
1,059	566			140	20	128,420
1,401	26		1,725	104		88,508
						182,380
6,775	192	1,172	294	726	7,154	629,826
23,096	5,212	10,189	4,339	3,765	9,000	357,814
						15
3,541	1,108	2,845	410	250	3,284	86,305
	739	8,157		4,267		67,253
3,063	3,060	5,166				78,960
2,987			3,028		6	139,697
260,085	80,388	77,616	102,754	24,609	52,324	6,788,476
835					116	76,880
				15,907	75	28,177
58,725	12,915	11,487	13,618	14,452		13,380,721
		2,876				20,617
		2,782		89		101,732
4,040			2,562			22,381
47,769	26,342	17,487		13,986		4,110,236
217			4,550			159,516
157,152	24,300	42,902	52,052	17,327	7,585	3,867,050
464,072	197,583	180,168	232,032	89,460	128,885	13,770,282
(279,077)	(86,140)	(149,261)	(133,146)	(50,233)	(86,956)	(7,621,639)
						51,727
384						16,871
454,117	175,000	108,441	171,668	100,988	49,705	27,984,551
714,202	255,388	186,057	274,422	125,597	102,029	34,773,027

Concluded on the following page

State of Texas
Combining Statement of Net Assets
Enterprise Funds – Colleges and Universities (concluded)
August 31, 2003 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	\$ 709,299	\$ 138,125	\$ 73,290	\$ 17,264	\$ 15,808
Payroll		75,321	9,012	34,872	14,703
Other Intergovernmental	399			3,384	
Federal	57,974			3,830	
Investment Trades	504,000				
Liabilities Payable from Restricted Assets	64,988				
Due To Other Funds	6,577	49		29	111
Deferred Revenue	609,001	221,998	63,874	72,534	139,219
Obligations/Securities Lending	247,392	179,033			
Employees' Compensable Leave	24,584	3,611	5,057	6,343	7,706
Claims and Judgments		12,216	4,192		
Capital Lease Obligations	822	34			68
Notes and Loans Payable	520,248	2,675	23,604		
G. O. Bonds Payable	2,995				4,120
Revenue Bonds Payable	97,835	55,895	14,660	13,935	17,995
Funds Held for Others	11,881	23,482	8,617	4,410	24,747
Other Current Liabilities	224,560	8,512	15,198	274	18,421
Total Current Liabilities	<u>3,082,555</u>	<u>720,951</u>	<u>217,504</u>	<u>156,875</u>	<u>242,898</u>
Non-Current Liabilities:					
Interfund Payable	2,442	3,554	987		
Deferred Revenue					1,258
Employees' Compensable Leave	235,809	56,787	18,216	7,272	4,908
Claims and Judgments		10,631	37,732		
Capital Lease Obligations	652	21			12
Notes and Loans Payable	27,527	137,325			
G. O. Bonds Payable	3,140				4,310
Revenue Bonds Payable	2,161,495	970,747	275,690	272,032	314,235
Assets Held for Others	312,884	362			
Other Non-Current Liabilities	1,020	22,405	2,214		416
Total Non-Current Liabilities	<u>2,744,969</u>	<u>1,201,832</u>	<u>334,839</u>	<u>279,304</u>	<u>325,139</u>
Total Liabilities	<u>5,827,524</u>	<u>1,922,783</u>	<u>552,343</u>	<u>436,179</u>	<u>568,037</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	3,301,140	751,814	393,055	304,325	313,863
Restricted for:					
Education	1,078,633	166,217	111,948	84,673	128,122
Debt Retirement	6,103				4,719
Capital Projects	125,522	4,694	58,231	21,001	771
Funds Held as Permanent Investments:					
Nonexpendable	11,149,997	312,254	254,415	309,123	129,395
Expendable	209,874	34,739			
Unrestricted	2,738,174	1,079,760	284,471	206,832	244,601
Total Net Assets	<u>\$18,609,443</u>	<u>\$ 2,349,478</u>	<u>\$ 1,102,120</u>	<u>\$ 925,954</u>	<u>\$ 821,471</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 6,003 19,000	\$ 6,001	\$ 2,760 5,210	\$ 2,987 4,225	\$ 1,196	\$ 3,023 5,248	\$ 975,756 167,591
				21	2	3,806
					224	62,028
						504,000
						64,988
1,019		92				7,877
42,715	15,437	27,032	29,779	12,678	5,061	1,239,328
1,904						428,329
624	1,872	398	1,174	94	316	51,779
						16,408
61	965	190		147	208	2,495
						546,527
	1,970	1,185	1,950		1,465	13,685
8,790	2,405	2,390	3,645	950	405	218,905
42,846		6,661	828	79	1,876	125,427
4,911	1,378	1,450	3,578	2,730	547	281,559
127,873	30,028	47,368	48,166	17,895	18,375	4,710,488
					383	7,366
						1,258
9,746	52	1,744	1,044	751	4,033	340,362
						48,363
66	17,175	692		304	974	19,896
						164,852
	2,070	1,685	2,060		1,540	14,805
191,930	33,055	26,500	116,755	28,735	9,990	4,401,164
	166					313,412
	439	978	2,789	205	24	30,490
201,742	52,957	31,599	122,648	29,995	16,944	5,341,968
329,615	82,985	78,967	170,814	47,890	35,319	10,052,456
210,649	77,513	49,804	81,920	42,289	40,774	5,567,146
28,539	2,883	9,886			910	1,611,811
4,134		300				15,256
2,984		952			276	214,431
6,582	2,740	5,945	20,504	14,791	191	12,205,937
2,290	54,619	1,615		1,461		304,598
129,409	34,648	38,588	1,184	19,166	24,559	4,801,392
\$ 384,587	\$ 172,403	\$ 107,090	\$ 103,608	\$ 77,707	\$ 66,710	\$24,720,571

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Enterprise Funds – Colleges and Universities
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	\$	\$ 38,521	\$ 38,517	\$ 215,339	\$ 192,763
Tuition Revenue - Pledged	727,399	389,719	104,929	326	
Discounts and Allowances	(134,389)	(69,579)	(30,820)	(44,212)	(33,029)
Hospital Revenue - Pledged	3,288,945				
Discounts and Allowances	(1,619,565)				
Professional Fees	2,060,641	12,631	59,522		
Professional Fees - Pledged	4,500	5,153			
Discounts and Allowances	(1,409,416)				
Auxiliary Enterprises				35,812	51,787
Auxiliary Enterprises - Pledged	249,770	172,242	62,544		37,356
Discounts and Allowances	(6,183)				(7,851)
Other Sales of Goods and Services		19,308	5,175	7,251	12,703
Other Sales of Goods and Services - Pledged	172,228	73,374	6,247		11,099
Discounts and Allowances	(331)				(35)
Interest and Investment Income		813			339
Interest and Investment Income - Pledged					
Federal Revenue	1,098,746	382,963	55,944	74,403	63,514
State Grant Revenue	70,672	64,479	87,118	8,877	6,333
Other Operating Grant Revenue	216,004	50,990	111,478	12,096	8,054
Other Revenues	10,521	17,125		3,765	(146)
Other Revenues - Pledged	351,248	23,354	3,378		
Total Operating Revenues	<u>5,080,790</u>	<u>1,181,093</u>	<u>504,032</u>	<u>313,657</u>	<u>342,887</u>
OPERATING EXPENSES					
Cost of Goods Sold	73,405	18,561		7,802	6,693
Salaries and Wages	3,723,210	1,025,203	419,401	338,623	298,593
Payroll Related Costs	969,603	274,406	108,736	80,949	76,096
Professional Fees and Services	208,200	128,231	67,795	5,292	24,621
Travel	77,266	43,261	12,867	8,659	7,929
Materials and Supplies	735,072	145,676	61,323	1,320	36,408
Communication and Utilities	190,470	83,550	31,127	7,662	25,266
Repairs and Maintenance	105,289	57,255	16,335	30,260	13,222
Rentals and Leases	73,706	23,552	7,037	8,857	7,170
Printing and Reproduction	29,746	13,171	6,993	5,219	3,820
Depreciation and Amortization	333,335	98,080	31,343	23,433	26,019
Bad Debt Expense	905	487	(88)		282
Interest Expense		136		1,842	14
Scholarships	194,653	135,509	10,203	43,676	47,210
Claims and Judgments	(33,328)	87	590	2,237	36
Other Expenses	502,274	127,439	30,459	85,930	44,832
Total Operating Expenses	<u>7,183,806</u>	<u>2,174,604</u>	<u>804,121</u>	<u>651,761</u>	<u>618,211</u>
Operating Income (Loss)	<u>(2,103,016)</u>	<u>(993,511)</u>	<u>(300,089)</u>	<u>(338,104)</u>	<u>(275,324)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 51,091	\$ 21,266	\$ 24,102	\$	\$ 2,223	\$ 2,603	\$ 586,425
72,783	10,933	10,667	32,795	16,040	19,438	1,385,029
(14,885)	(3,329)	(5,905)	(12,707)	(2,476)	(10,247)	(361,578)
			3,753			3,292,698
			(514)			(1,620,079)
29,770						2,162,564
						9,653
(385)						(1,409,801)
1,799	2,612	858			997	93,865
25,529	6,270	23,738		4,586	10,689	592,724
(180)		(2,873)		(622)	(1,057)	(18,766)
12,799		3,912	1,452			62,600
			3,367	916	6,008	273,239
						(366)
		751	58			1,961
					157	157
38,041	8,617	12,863	29,427	430	20,678	1,785,626
1,562	891	1,591	1,999		1,244	244,766
8,633		2,605	3,395		234	413,489
308	4,889	328				36,790
	1,101		1,808	865	4	381,758
<u>226,865</u>	<u>53,250</u>	<u>72,637</u>	<u>64,833</u>	<u>21,962</u>	<u>50,748</u>	<u>7,912,754</u>
5,431	125	8,696			3,649	124,362
217,249	52,837	61,719	56,338	27,064	60,082	6,280,319
47,188	7,987	16,760	13,351	6,868	15,985	1,617,929
8,464	1,118	2,501	6,161	1,923	1,981	456,287
5,604	873	1,592	1,569	860	836	161,316
27,659	8,639	4,187	6,196	4,854	12,859	1,044,193
12,720	6,626	7,689	4,680	2,013	6,624	378,427
9,270	1,569	2,203	962	1,190	4,370	241,925
5,399	1,492	1,400	1,332	336	1,173	131,454
1,866	977	519	920	302	315	63,848
13,951	8,597	3,509	5,030	3,219	5,445	551,961
3	119	5	558	121		2,392
42		2	3	7	27	2,073
24,637	14,377	11,833	17,826	5,942	9,363	515,229
195					56	(30,127)
41,382	6,170	9,680	9,640		7,492	865,298
<u>421,060</u>	<u>111,506</u>	<u>132,295</u>	<u>124,566</u>	<u>54,699</u>	<u>130,257</u>	<u>12,406,886</u>
(194,195)	(58,256)	(59,658)	(59,733)	(32,737)	(79,509)	(4,494,132)

Concluded on the following page

State of Texas

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Enterprise Funds – Colleges and Universities (concluded)

For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	\$	\$ 26,335	\$ (18)	\$	\$
Gifts	175,303	69,690	42,653	36,114	24,458
Gifts - Pledged	14,446	32,627			
Land Income		4,499			
Interest and Investment Income	1,446,541	136,109	46,884	36,424	12,765
Interest and Investment Income- Pledged	182,784	28,415	4,786		
Loan Premium and Fees on Securities Lending					
Investing Activities Expense	(31,075)	(5,370)			(54)
Interest Expense	(89,698)	(59,731)	(14,163)	(12,634)	(19,406)
Borrower Rebates and Agent Fees		(980)			
Gain (Loss) on Sale of Capital Assets	(17,139)	(7,071)	(3,655)	(3,368)	(203)
Claims and Judgments		(360)			(754)
Other Revenues	99,869		18,807		31
Other Expenses	(89,277)	(51,030)		(20,769)	(4,155)
Total Nonoperating Revenues (Expenses)	<u>1,691,754</u>	<u>173,133</u>	<u>95,294</u>	<u>35,767</u>	<u>12,682</u>
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	<u>(411,262)</u>	<u>(820,378)</u>	<u>(204,795)</u>	<u>(302,337)</u>	<u>(262,642)</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS					
Capital Contributions - Federal	8,621				
Capital Contributions (Distributions) - Other	74,272	15,013	836	129	(424)
Contributions to Endowments	221,973	4,608		5,893	635
Extraordinary Items	36,513				19
Transfer In	1,837,225	1,018,046	292,239	313,050	308,470
Transfer Out	(209,933)	(1)			(69)
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	<u>1,968,671</u>	<u>1,037,666</u>	<u>293,075</u>	<u>319,072</u>	<u>308,631</u>
Change in Net Assets	<u>1,557,409</u>	<u>217,288</u>	<u>88,280</u>	<u>16,735</u>	<u>45,989</u>
Net Assets, September 1, 2002	17,119,586	2,049,980	1,021,712	905,060	799,632
Restatements	(67,552)	82,210	(7,872)	4,159	(24,150)
Net Assets, September 1, 2002, as Restated	<u>17,052,034</u>	<u>2,132,190</u>	<u>1,013,840</u>	<u>909,219</u>	<u>775,482</u>
Net Assets, August 31, 2003	<u>\$18,609,443</u>	<u>\$2,349,478</u>	<u>\$1,102,120</u>	<u>\$ 925,954</u>	<u>\$ 821,471</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 6,580	\$ 1,240	\$ 1,885	\$ 1,500	\$ 4,096	\$ 285	\$ 30,413
84				2,323		362,031
						47,157
9,908	2,702	1,021		1,532		4,499
	(529)		1,641		330	1,693,886
				137		217,427
	(2,298)	(1)	(1,000)	(82)		137
(8,645)		(1,631)	(3,103)	(1,019)	(591)	(39,880)
				(143)		(210,621)
(484)	(414)	111		(138)	(3,060)	(1,123)
			(551)			(35,421)
			1,555	22	11	(1,665)
(783)	(544)	30	(912)		(1,797)	120,295
6,660	157	1,415	(870)	6,728	(4,822)	(169,237)
						2,017,898
(187,535)	(58,099)	(58,243)	(60,603)	(26,009)	(84,331)	
						(2,476,234)
						8,621
(291)		182			967	90,684
657		802	1,179	250		235,997
						36,532
198,713	66,946	60,553	66,433	25,872	86,248	4,273,795
(2,207)	(1,070)	(61)		(43)	(1,416)	(214,800)
196,872	65,876	61,476	67,612	26,079	85,799	4,430,829
9,337	7,777	3,233	7,009	70	1,468	1,954,595
376,078	164,696	104,244	92,703	77,847	65,423	22,776,961
(828)	(70)	(387)	3,896	(210)	(181)	(10,985)
375,250	164,626	103,857	96,599	77,637	65,242	22,765,976
\$ 384,587	\$ 172,403	\$ 107,090	\$ 103,608	\$ 77,707	\$ 66,710	\$24,720,571

State of Texas
Combining Statement of Cash Flows
Enterprise Funds – Colleges & Universities
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 2,384,402	\$ 76,886	\$ 67,184	\$ 252,447	\$ 17,495
Proceeds from Tuition & Fees	612,947	373,774	111,589		161,799
Proceeds from Research Grant & Contracts	1,810,196	675,834	264,423		33,340
Proceeds from Gifts					1,066
Proceeds from Loan Programs	79,398	11,346	1,547	15,050	9,996
Proceeds from Auxiliaries	247,289	173,363	59,320		26,635
Proceeds from Other Revenues	375,949	35,628	16,122	180,901	80,271
Payments to Suppliers for Goods and Services	(2,163,220)	(704,345)	(180,282)	(87,972)	(113,151)
Payments to Employees	(4,656,949)	(1,291,972)	(468,500)	(403,750)	(347,428)
Payments for Loans Provided	(81,139)	(7,550)	(1,011)	(16,577)	(10,061)
Payments for Other Expenses	(11,677)	(154,043)	(124,206)	(132,954)	(74,725)
Net Cash Provided by Operating Activities	<u>(1,402,804)</u>	<u>(811,079)</u>	<u>(253,814)</u>	<u>(192,855)</u>	<u>(214,763)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from Debt Issuance					52,000
Proceeds from State Appropriations	1,627,261	788,746	253,782		276,159
Proceeds from Gifts	229,063	72,069	26,599		11,945
Proceeds from Endowments	172,466	4,608			1,221
Proceeds from Transfers from Other Funds		159,765	5,734	225,759	34,782
Proceeds from Grant Receipts		23,473		24,557	170
Proceeds from Other Financing Activities	108,319	10,521	9,439	148,402	1,928
Proceeds from Contributed Capital					16,918
Payments of Principal on Debt Issuance					(5,110)
Payments of Interest		(80)			
Payments of Other Costs of Debt Issuance					
Payments for Transfers to Other Funds	(337,856)	(1)		(57,087)	(4,415)
Payments for Other Uses	(64,986)	(5,061)		(172,901)	(3,121)
Net Cash Provided by Noncapital Financing Activities	<u>1,734,267</u>	<u>1,054,040</u>	<u>295,554</u>	<u>168,730</u>	<u>382,477</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	340	567		2	354
Proceeds from Debt Issuance	1,099,220	264,611	13,691	121,537	49,008
Proceeds from State Grants & Contracts		16,929			
Proceeds From Gifts			879		
Proceeds from Other Financing Activities					
Proceeds from Capital Contributions	62,718			36,953	
Proceeds of Advances from Other Funds			28,697		
Payments for Additions to Capital Assets	(1,070,954)	(203,029)	(109,370)	(87,271)	(85,119)
Payments of Principal on Debt Issuance	(545,040)	(86,838)	(15,262)	(12,428)	(46,964)
Payments for Capital Leases		(46,602)			(104)
Payments of Interest on Debt Issuance	(88,792)		(14,676)	(3,265)	(13,492)
Payments on Other Costs of Debt Issuance	(17,567)	(127)	(970)	(9,826)	(2,234)
Net Cash Provided by Capital and Related Financing Activities	<u>(560,075)</u>	<u>(54,489)</u>	<u>(97,011)</u>	<u>45,702</u>	<u>(98,551)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	12,724,027	3,192,804	259,542	177	6,730
Proceeds from Interest and Investment Income	465,094	62,293	33,421	1,698	9,556
Proceeds from Principal Payments on Loans				9	5,302
Payments to Acquire Investments	(12,461,896)	(3,396,408)	(326,432)		(5,385)
Net Cash Provided by Investing Activities	<u>727,225</u>	<u>(141,311)</u>	<u>(33,469)</u>	<u>1,884</u>	<u>16,203</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>498,613</u>	<u>47,161</u>	<u>(88,740)</u>	<u>23,461</u>	<u>85,366</u>
Cash and Cash Equivalents, September 1, 2002	<u>1,572,244</u>	<u>336,880</u>	<u>2,194</u>	<u>131,935</u>	<u>332,160</u>
Restatements		(144,078)	247,915		6,462
Cash and Cash Equivalents, September 1, 2002, Restated	<u>1,572,244</u>	<u>192,802</u>	<u>250,109</u>	<u>131,935</u>	<u>338,622</u>
Cash and Cash Equivalents, August 31, 2003	<u>\$ 2,070,857</u>	<u>\$ 239,963</u>	<u>\$ 161,369</u>	<u>\$ 155,396</u>	<u>\$ 423,988</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 40,614	\$ 42,790	\$	\$	\$	\$ 28,299	\$ 2,910,117
123,335		29,321	9,682	15,284		1,437,731
58,971	14,301	17,547	33,321	1,131	33,135	2,942,199
						1,066
4,854			41,489	22		163,702
27,158		25,202	6,607	3,964		569,538
4,113	5,076	1,089	8,296	1,324	160	708,929
(130,568)	(22,810)	(37,717)	(32,597)	(18,773)	(49,625)	(3,541,060)
(249,471)	(61,750)	(78,217)	(67,129)	(33,339)	(77,556)	(7,736,061)
(5,017)		(139)	(28,562)	(18)		(150,074)
(41,670)	(20,151)	(11,460)	(18,638)		(713)	(590,237)
(167,681)	(42,544)	(54,374)	(47,531)	(30,405)	(66,300)	(3,284,150)
						52,000
141,361	58,418	50,748	54,546	20,303	79,380	3,350,704
7,828		1,885	1,500	2,420	15	353,324
55		235	1,179			179,764
32,069	301	355	373	403	269	459,810
				5,230		53,430
8,480	9,533	30	5,623		11	302,286
84				150		17,152
(160)						(5,270)
(30)			(3)			(113)
(14)						(14)
(5,829)				(436)		(405,624)
(2,326)			(550)		(1,809)	(250,754)
181,518	68,252	53,253	62,668	28,070	77,866	4,106,695
27		111		11		1,412
41,058	2,829	2,177	29,545	13,174	10,880	1,647,730
		182			534	17,645
						879
		207				207
64						99,735
21,661		6,633	7,191	3,008		67,190
(67,503)	(10,622)	(14,254)	(29,766)	(4,126)	(7,177)	(1,689,191)
(8,503)	(4,625)	(3,773)	(5,315)	(5,371)	(2,182)	(736,301)
						(46,706)
(7,101)	(2,297)	(1,447)	(5,014)	(1,446)	(558)	(138,088)
(614)			(679)		(1,416)	(33,433)
(20,911)	(14,715)	(10,164)	(4,038)	5,250	81	(808,921)
47,527	13,336	3,872	22,746	81,629	3,046	16,355,436
9,411	2,792	613	105	1,116	335	586,434
						5,311
(29,827)	(12,340)		(31,272)	(87,606)	(13,911)	(16,365,077)
27,111	3,788	4,485	(8,421)	(4,861)	(10,530)	582,104
20,037	14,781	(6,800)	2,678	(1,946)	1,117	595,728
154,330	43,499	40,945	12,194	5,141	20,034	2,651,556
2,101					(222)	112,178
156,431	43,499	40,945	12,194	5,141	19,812	2,763,734
\$ 176,468	\$ 58,280	\$ 34,145	\$ 14,872	\$ 3,195	\$ 20,929	\$ 3,359,462

State of Texas
Combining Statement of Cash Flows
Enterprise Funds – Colleges and Universities
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$(2,103,016)	\$ (993,511)	\$ (300,089)	\$ (338,104)	\$ (275,324)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Amortization and Depreciation	333,335	98,080	31,343	23,433	26,019
Discounts and Allowances	905	487	(88)		282
Operating Income and Cash Flow Categories Classification Differences	119,757	67,984	13,707	42,762	16,501
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	80,731	(19,440)	2,280	47,211	(30,024)
(Increase) Decrease in Due From Other Funds		(1,896)			727
(Increase) Decrease in Inventories	1,870	893	(191)	1,918	(827)
(Increase) Decrease in Notes Receivable			(2,764)		(179)
(Increase) Decrease in Loans and Contracts	1,033	2,953		(1,567)	(602)
(Increase) Decrease in Other Assets	(356)	(120)		2,673	2,985
(Increase) Decrease in Prepaid Expenses		(580)	(128)	(1,996)	(1,412)
(Increase) Decrease in State Appropriations					2,097
Increase (Decrease) in Payables	44,947	(2,893)	15,279	12,901	2,297
Increase (Decrease) in Deposits	(14,903)	(349)			125
Increase (Decrease) in Due To Other Funds		2,280			(4,378)
Increase (Decrease) in Deferred Revenue	53,791	32,673	(7,789)	11,789	30,286
Increase (Decrease) in Compensated Absence Liability	30,399	4,398	798		1,258
Increase (Decrease) in Other Liabilities	48,703	(2,038)	(6,172)	6,125	15,406
Total Adjustments	<u>700,212</u>	<u>182,432</u>	<u>46,275</u>	<u>145,249</u>	<u>60,561</u>
Net Cash Provided by Operating Activities	<u>\$(1,402,804)</u>	<u>\$ (811,079)</u>	<u>\$ (253,814)</u>	<u>\$ (192,855)</u>	<u>\$ (214,763)</u>
NON CASH TRANSACTIONS					
Net Change in Fair Value of Investments	\$(1,243,364)	\$ (84,548)	\$ (27,373)	\$ (11,283)	\$ (3,336)
Donation of Capital Assets	\$ (8,877)				\$ (100)
Borrowing Under Capital Lease Purchase	\$ (638)	\$ (1,506)			
Other	\$ (595)			\$ (150)	\$ (58,854)

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ (194,195)	\$ (58,256)	\$ (59,658)	\$ (59,733)	\$ (32,737)	\$ (79,509)	\$(4,494,132)
13,951 3	8,597 119	3,509 5	5,030 558	3,219 121	5,445	551,961 2,392
12,404	3,663	5,266	1,135	309	10,384	293,872
(8,830)	(595)	(1,836)	(9,308)	(660)	(2,717)	56,812
	188	173	169		(215)	(854)
431	(509)	(823)	31	78	(272)	2,599
						(2,943)
(295)		(139)		4		1,387
		70			(6)	5,246
(2,703)	1,304	1,350	(131)	(675)		(4,971)
						2,097
(1,020)	(2,825)	(179)	(1,201)	(157)	(2,131)	65,018
		11	(988)			(16,104)
(29)		(544)			(11)	(2,682)
12,593	5,633	(2,970)	14,016	107	3,417	153,546
	(53)	182	401			37,383
9	190	1,209	2,490	(14)	(685)	65,223
26,514	15,712	5,284	12,202	2,332	13,209	1,209,982
<u>\$ (167,681)</u>	<u>\$ (42,544)</u>	<u>\$ (54,374)</u>	<u>\$ (47,531)</u>	<u>\$ (30,405)</u>	<u>\$ (66,300)</u>	<u>\$(3,284,150)</u>
\$ (667)	\$ 529	\$ (200)	\$ (501)	\$ (451)		\$(1,371,194)
					\$ (270)	\$ (9,247)
						\$ (2,144)
\$ 480					\$ 2,627	\$ (56,492)

Nonmajor Enterprise Funds

The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the Treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the Unemployment Compensation Fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing & Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the Institutional Division's commissary operations and other miscellaneous revenue.

The **Texas Treasury Safekeeping Trust Company Fund** provides banking and trust services for a fee to internal and external entities. The Trust Company was initially created to provide direct access to services of the Federal Reserve System.

The **Texas Prepaid Higher Education Tuition Board** offers a program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

State of Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds
August 31, 2003 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ (59,607)	\$ 25,072	\$ 94,885	
Securities Lending Collateral Investments				
Restricted:				
Cash and Cash Equivalents	954	165,393		
Short Term Investments		125,757	171,214	
Loans and Contracts		7,150		
Receivables:				
Federal	23,994			
Accounts	217,494	457	25,843	812
Interest and Dividends		10,042		
Other				
Due From Other Funds	4,753			16,721
Interfund Receivable			74	
Inventories		11	7,022	6,386
Prepaid Items			12,444	
Loans and Contracts		87		
Other Current Assets		554		
Total Current Assets	<u>187,588</u>	<u>334,523</u>	<u>311,482</u>	<u>23,919</u>
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		1,004,011	1,384,238	
Receivables				
Loans and Contracts		760,801		
Loans and Contracts		3,668		
Investments				
Capital Assets:				
Non-Depreciable		3		283
Depreciable		1,347	5,274	4,161
Accumulated Depreciation		(1,042)	(4,174)	(2,908)
Assets Held in Trust				
Other Non-Current Assets		12,136		
Total Non-Current Assets	<u>0</u>	<u>1,780,924</u>	<u>1,385,338</u>	<u>1,536</u>
Total Assets	<u>187,588</u>	<u>2,115,447</u>	<u>1,696,820</u>	<u>25,455</u>

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$ 4,041	\$ 226,749	\$215,876	\$ 507,016
	120,874		120,874
		48	48
	25,788		192,135
			296,971
			7,150
			23,994
		20,376	264,982
	4,366	2	14,410
358			358
			21,474
			74
		844	14,263
		279	12,723
	128,421	11,047	139,555
		1,965	2,519
<u>4,399</u>	<u>506,198</u>	<u>250,437</u>	<u>1,618,546</u>
5,417			5,417
	875,494		3,263,743
	469,428		469,428
			760,801
			3,668
		7,308	7,308
410		409	1,105
339	2,427	4,047	17,595
(45)	(977)	(1,682)	(10,828)
		3,496	3,496
		8,000	20,136
<u>6,121</u>	<u>1,346,372</u>	<u>21,578</u>	<u>4,541,869</u>
<u>10,520</u>	<u>1,852,570</u>	<u>272,015</u>	<u>6,160,415</u>

Concluded on the following page

State of Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds (concluded)
August 31, 2003 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 98,983	\$ 991	\$ 24,086	\$ 4,158
Payroll			1,348	1,285
Federal	312			
Liabilities Payable from Restricted Assets			234,923	
Due To Other Funds			9,356	
Interfund Payable		291		
Deferred Revenue	21,288	10,562		
Obligations/Securities Lending				
Employees' Compensable Leave		509	818	954
Capital Lease Obligations				
Notes and Loans Payable	146,109	61,470		
Revenue Bonds Payable		12,766		
Other Current Liabilities	2,461	28,155	10,724	
Total Current Liabilities	<u>269,153</u>	<u>114,744</u>	<u>281,255</u>	<u>6,397</u>
Non-Current Liabilities:				
Employees' Compensable Leave		138	434	268
Capital Lease Obligations				
Revenue Bonds Payable		1,720,603		
Liabilities Payable From Restricted Assets			1,328,286	
Assets Held for Others		103,265		
Other Non-Current Liabilities		67,871		
Total Non-Current Liabilities	<u>0</u>	<u>1,891,877</u>	<u>1,328,720</u>	<u>268</u>
Total Liabilities	<u>269,153</u>	<u>2,006,621</u>	<u>1,609,975</u>	<u>6,665</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt		308	1,102	1,537
Restricted for:				
Debt Retirement		84,065		
Other	186		11,089	
Unrestricted	(81,751)	24,453	74,654	17,253
Total Net Assets	<u>\$ (81,565)</u>	<u>\$ 108,826</u>	<u>\$ 86,845</u>	<u>\$ 18,790</u>

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$ 388	\$ 1,284	\$ 91,848	\$ 221,738
247		311	3,191
			312
	93,286		328,209
	83	1,260	10,699
			291
		396	32,246
	120,874		120,874
140	49	285	2,755
		165	165
		13,258	220,837
			12,766
119		1,965	43,424
<u>894</u>	<u>215,576</u>	<u>109,488</u>	<u>997,507</u>
64	42	151	1,097
		806	806
			1,720,603
	1,873,035		3,201,321
		3,497	106,762
			67,871
<u>64</u>	<u>1,873,077</u>	<u>4,454</u>	<u>5,098,460</u>
<u>958</u>	<u>2,088,653</u>	<u>113,942</u>	<u>6,095,967</u>
704	1,451	1,801	6,903
			84,065
		60,234	71,509
8,858	(237,534)	96,038	(98,029)
<u>\$ 9,562</u>	<u>\$ (236,083)</u>	<u>\$ 158,073</u>	<u>\$ 64,448</u>

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
OPERATING REVENUES				
Lottery Collections	\$	\$	\$3,131,063	\$
Auxiliary Enterprises - Pledged				71,333
Unemployment Taxes	1,603,241			
Other Sales of Goods and Services				
Premium Revenue				
Interest and Investment Income		93,050		
Federal Revenue	663,269			
Other Revenues	150,304	9,679	475	380
Total Operating Revenues	<u>2,416,814</u>	<u>102,729</u>	<u>3,131,538</u>	<u>71,713</u>
OPERATING EXPENSES				
Cost of Goods Sold				48,749
Salaries and Wages		6,345	12,367	14,048
Payroll Related Costs		1,637	2,957	4,047
Professional Fees and Services		1,174	5,453	6
Travel		216	259	44
Materials and Supplies		246	2,082	201
Communication and Utilities		138	394	25
Repairs and Maintenance		133	587	115
Rentals and Leases		945	5,887	958
Printing and Reproduction		47	14,521	52
Depreciation and Amortization		666	386	70
Unemployment Benefit Payments	2,961,709			
Bad Debt Expense			640	
Interest Expense		99,911		
Lottery Prize Payments			1,845,198	
Employee/Participant Benefit Payments				
Other Expenses		2,610	272,918	103
Total Operating Expenses	<u>2,961,709</u>	<u>114,068</u>	<u>2,163,649</u>	<u>68,418</u>
Operating Income (Loss)	<u>(544,895)</u>	<u>(11,339)</u>	<u>967,889</u>	<u>3,295</u>
NONOPERATING REVENUES (EXPENSES)				
Gifts				
Interest and Investment	11,049		(30,129)	
Loan Premium and Fees on Securities Lending				
Interest Expense	(2,460)			
Borrower Rebates and Agent Fees				
Gain on Sale of Capital Assets			8	
Settlement of Claims				5
Claims and Judgments			(41)	
Total Nonoperating Revenues (Expenses)	<u>8,589</u>	<u>0</u>	<u>(30,162)</u>	<u>5</u>
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	<u>(536,306)</u>	<u>(11,339)</u>	<u>937,727</u>	<u>3,300</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS				
Capital Contributions (Distributions) – Other		(37)		
Transfer In	443		158,888	5,369
Transfer Out	(3,263)		(1,107,851)	(12,256)
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	<u>(2,820)</u>	<u>(37)</u>	<u>(948,963)</u>	<u>(6,887)</u>
Change in Net Assets	<u>(539,126)</u>	<u>(11,376)</u>	<u>(11,236)</u>	<u>(3,587)</u>
Total Net Assets, September 1, 2002	457,561	120,201	101,435	22,377
Restatements		1	(3,354)	
Total Net Assets, September 1, 2002, as Restated	<u>457,561</u>	<u>120,202</u>	<u>98,081</u>	<u>22,377</u>
Total Net Assets, August 31, 2003	<u>\$ (81,565)</u>	<u>\$ 108,826</u>	<u>\$ 86,845</u>	<u>\$ 18,790</u>

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$	\$		\$3,131,063
			71,333
			1,603,241
	357,465	8,560	366,025
		584,709	584,709
		333	93,383
			663,269
4,983	3,416	6,544	175,781
<u>4,983</u>	<u>360,881</u>	<u>600,146</u>	<u>6,688,804</u>
		1,849	50,598
2,326	850	4,903	40,839
504	202	1,342	10,689
549	5,090	1,472	13,744
14	8	32	573
	257	369	3,155
97	128	151	933
	340	169	1,344
	31	394	8,215
	259	273	15,152
38	485	279	1,924
			2,961,709
			640
		233	100,144
			1,845,198
	497,042	515,862	1,012,904
1,051	1,384	6,479	284,545
<u>4,579</u>	<u>506,076</u>	<u>533,807</u>	<u>6,352,306</u>
<u>404</u>	<u>(145,195)</u>	<u>66,339</u>	<u>336,498</u>
		1,095	1,095
179	65,255	2,546	48,900
	2,027		2,027
			(2,460)
	(1,761)		(1,761)
		26	34
			5
			(41)
<u>179</u>	<u>65,521</u>	<u>3,667</u>	<u>47,799</u>
<u>583</u>	<u>(79,674)</u>	<u>70,006</u>	<u>384,297</u>
		(200)	(237)
		42,000	206,700
			(1,123,370)
<u>0</u>	<u>0</u>	<u>41,800</u>	<u>(916,907)</u>
<u>583</u>	<u>(79,674)</u>	<u>111,806</u>	<u>(532,610)</u>
9,903	(156,409)	3,198	558,266
(924)		43,069	38,792
<u>8,979</u>	<u>(156,409)</u>	<u>46,267</u>	<u>597,058</u>
<u>\$ 9,562</u>	<u>\$ (236,083)</u>	<u>\$ 158,073</u>	<u>\$ 64,448</u>

State of Texas
Combining Statement of Cash Flows –
Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$1,538,085	\$	\$3,133,076	\$ 71,915
Proceeds from Loan Programs		140,534		
Proceeds from Research Grants & Contracts	660,771			
Proceeds from Other Revenues	147,422	11,392		323
Payments to Suppliers for Goods and Services		(6,550)	(313,922)	(50,642)
Payments to Employees	(2,958,749)	(7,916)	(14,852)	(18,095)
Payments for Loans Provided		(189,632)		
Payments for Other Expenses			(1,858,535)	(1,508)
Net Cash Provided by Operating Activities	<u>(612,471)</u>	<u>(52,172)</u>	<u>945,767</u>	<u>1,993</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance		439,683		
Proceeds from Transfers from Other Funds	4,615,238	11,108		10,202
Proceeds from Other Financing Activities	1,036,706		34,446	
Payments of Principal on Debt Issuance		(263,734)		
Payments of Interest		(97,132)		
Payments of Other Costs of Debt Issuance		(1,542)		
Payments for Transfers to Other Funds	(4,616,010)	(11,109)	(955,285)	(12,256)
Payments for Other Uses	(890,596)		(158,763)	
Net Cash Provided by Noncapital Financing Activities	<u>145,338</u>	<u>77,274</u>	<u>(1,079,602)</u>	<u>(2,054)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Capital Assets				
Payments for Additions to Capital Assets		(21)	(213)	(12)
Net Cash Provided by Capital and Related Financing Activities	<u>0</u>	<u>(21)</u>	<u>(213)</u>	<u>(12)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments		836,355	158,763	30,553
Proceeds from Interest and Investment Income	12,291	61,071	34	246
Payments to Acquire Investments		(836,510)	(35,229)	(30,726)
Net Cash Provided by Investing Activities	<u>12,291</u>	<u>60,916</u>	<u>123,568</u>	<u>73</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(454,842)	85,997	(10,480)	
Cash and Cash Equivalents, September 1, 2002	396,189	104,468	105,365	
Restatements				
Cash and Cash Equivalents, September 1, 2002, Restated	<u>396,189</u>	<u>104,468</u>	<u>105,365</u>	
Cash and Cash Equivalents, August 31, 2003	<u>\$ (58,653)</u>	<u>\$ 190,465</u>	<u>\$ 94,885</u>	<u>\$ 0</u>

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$	\$ 274,922	\$ 573,696	\$5,591,694
		333	140,867
			660,771
5,264	60	1,976	166,437
	(7,894)	(426,884)	(805,892)
(2,778)		(5,449)	(3,007,839)
		(947)	(190,579)
(1,396)	(30,837)	(5,012)	(1,897,288)
<u>1,090</u>	<u>236,251</u>	<u>137,713</u>	<u>658,171</u>
		4,258	443,941
		42,500	4,679,048
			1,071,152
			(263,734)
		(170)	(97,302)
		(105)	(1,647)
		(500)	(5,595,160)
			(1,049,359)
<u>0</u>	<u>0</u>	<u>45,983</u>	<u>(813,061)</u>
		28	28
<u>(518)</u>	<u>(140)</u>	<u>(123)</u>	<u>(1,027)</u>
<u>(518)</u>	<u>(140)</u>	<u>(95)</u>	<u>(999)</u>
		26,569	1,052,240
186	28,254	2,537	104,619
	(113,417)	(5,267)	(1,021,149)
<u>186</u>	<u>(85,163)</u>	<u>23,839</u>	<u>135,710</u>
758	150,948	207,440	(20,179)
849	101,589	3,460	711,920
7,851		4,976	12,827
<u>8,700</u>	<u>101,589</u>	<u>8,436</u>	<u>724,747</u>
<u>\$ 9,458</u>	<u>\$ 252,537</u>	<u>\$ 215,876</u>	<u>\$ 704,568</u>

State of Texas
Combining Statement of Cash Flows –
Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (544,895)	\$ (11,339)	\$ 967,889	\$ 3,295
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Amortization and Depreciation		666	386	70
Discounts and Allowances			640	
Operating Income and Cash Flow Categories Classification Differences		43,654		(4)
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(64,354)	654	1,538	649
(Increase) Decrease in Inventories			(1,580)	974
(Increase) Decrease in Loans and Contracts		(158,726)		
(Increase) Decrease in Other Assets		(267)	(60)	
(Increase) Decrease in Prepaid Expenses			(12,444)	
Increase (Decrease) in Payables	3,076	1,725	(10,602)	(2,991)
Increase (Decrease) in Due To Other Funds				
Increase (Decrease) in Deferred Revenue	(6,298)	1,061		
Increase (Decrease) in Other Liabilities		70,400		
Total Adjustments	<u>(67,576)</u>	<u>(40,833)</u>	<u>(22,122)</u>	<u>(1,302)</u>
Net Cash Provided by Operating Activities	<u>\$ (612,471)</u>	<u>\$ (52,172)</u>	<u>\$ 945,767</u>	<u>\$ 1,993</u>
NON CASH TRANSACTIONS				
Net Change in Fair Value of Investments		\$ 6,196	\$ 30,163	

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$ 404	\$ (145,195)	\$ 66,339	\$ 336,498
38	485	279	1,924 640
	3	(2,835)	40,818
282	(85,898)	(19,034)	(166,163)
		(20)	(626)
		(2,591)	(161,317)
		(136)	(463)
		8	(12,436)
366	466,837	95,633	554,044
	18	167	185
		(73)	(5,310)
	1	(24)	70,377
<u>686</u>	<u>381,446</u>	<u>71,374</u>	<u>321,673</u>
<u>\$ 1,090</u>	<u>\$ 236,251</u>	<u>\$ 137,713</u>	<u>\$ 658,171</u>
	\$ (37,167)		\$ (808)

Fiduciary Funds



Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The State of Texas is the only employer participating in the plan.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters’ Relief and Retirement Fund** accounts for the accumulation of resources for pension, death, and disability benefits for fire fighters who serve without monetary reward.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The Fund also receives appropriations by the state for the administration of the cafeteria plan.

The **TexaSaver Administrative Trust Fund** receives deferrals, purchases qualified investments, and pays expenses associated with administration of the deferred compensation plan.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state’s General Revenue Fund for annuity and refund payments to eligible judicial employees.

State of Texas
Combining Statement of Fiduciary Net Assets –
Pension and Other Employee Benefit Trust Funds
August 31, 2003 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Deferred Compensation Trust Fund	Judicial Retirement System - Plan Two Trust Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,038,118	\$ 25,639	\$ 529	\$ 14,356	\$ 247
Securities Lending Collateral	8,808,329	2,419,997	82,698		15,707
Investments	76,619,771	18,361,398	626,626	224,619	120,246
Receivables:					
Interest and Dividends	305,842	2,025	68	1	13
Investment Trades	1,021,224	452,880	15,476		2,940
Other	149,170	47,724			897
Due From Other Funds	376	4,019			
Properties, at Cost, net of Accumulated Depreciation	32,191	7,438			
Other Assets		68			
Total Assets	<u>87,975,021</u>	<u>21,321,188</u>	<u>725,397</u>	<u>238,976</u>	<u>140,050</u>
LIABILITIES					
Payables:					
Accounts	447,921	15,133	38	348	29
Payroll	37	1,522			
Investment Trades	1,008,855	1,414,790	48,347		9,183
Deferred Revenue	27,000	694			4
Due To Other Funds	47,559	376	221	40	42
Employees' Compensable Leave	2,318	1,323			
Capital Lease Obligations					
Obligations/Securities Lending	8,808,329	2,419,997	82,698		15,707
Total Liabilities	<u>10,342,019</u>	<u>3,853,835</u>	<u>131,304</u>	<u>388</u>	<u>24,965</u>
NET ASSETS					
Net Assets Held in Trust for Pension Benefits	<u>\$ 77,633,002</u>	<u>\$ 17,467,353</u>	<u>\$ 594,093</u>	<u>\$ 238,588</u>	<u>\$ 115,085</u>

Fire Fighters' Relief and Retirement Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Judicial Retirement System - Plan One Fund	Totals
\$ 833	\$ 3,723	\$ 32	\$	\$ 1,083,477
32,335				11,326,731
				95,984,995
20	10			307,979
				1,492,520
210	2,582			200,583
			247	4,642
18				39,647
				68
<u>33,416</u>	<u>6,315</u>	<u>32</u>	<u>247</u>	<u>110,440,642</u>
205	4,297		247	468,218
23				1,582
				2,481,175
264				27,962
2	39	31		48,310
24				3,665
6				6
				11,326,731
<u>524</u>	<u>4,336</u>	<u>31</u>	<u>247</u>	<u>14,357,649</u>
<u>\$ 32,892</u>	<u>\$ 1,979</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 96,082,993</u>

State of Texas
Combining Statement of Changes in Fiduciary Net Assets –
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Deferred Compensation Trust Fund	Judicial Retirement System - Plan Two Trust Fund
ADDITIONS					
Contributions:					
Member Contributions	\$ 1,672,214	\$ 332,257	\$	\$ 54,373	\$ 3,038
State Contributions		302,053			8,294
Transfers In of Contributions	1,239,465				
Other Contributions	182,536				
Total Contributions	<u>3,094,215</u>	<u>634,310</u>	<u>0</u>	<u>54,373</u>	<u>11,332</u>
Investment Income:					
From Investing Activities:					
Net Appreciation in					
Fair Value of Investments	5,673,389	940,442	32,000	11,096	6,216
Interest and Investment Income	2,125,066	522,369	17,951	7,245	3,226
Total Investing Income	7,798,455	1,462,811	49,951	18,341	9,442
Less Investing Activities Expense		14,454	509		83
Net Income from Investing Activities	<u>7,798,455</u>	<u>1,448,357</u>	<u>49,442</u>	<u>18,341</u>	<u>9,359</u>
From Securities Lending Activities:					
Securities Lending Income	108,579	39,517	1,360		242
Less Securities Lending Expense:					
Borrower Rebates	82,194	29,612	1,019		181
Management Fees	3,958	2,645	91		16
Net Income from Securities Lending	<u>22,427</u>	<u>7,260</u>	<u>250</u>	<u>0</u>	<u>45</u>
Total Net Investment Income	<u>7,820,882</u>	<u>1,455,617</u>	<u>49,692</u>	<u>18,341</u>	<u>9,404</u>
Other Additions:					
Other Revenue		175	2		
Transfer In	4,105	28,610		234	
Total Other Additions	<u>4,105</u>	<u>28,785</u>	<u>2</u>	<u>234</u>	<u>0</u>
Total Additions	<u>10,919,202</u>	<u>2,118,712</u>	<u>49,694</u>	<u>72,948</u>	<u>20,736</u>
DEDUCTIONS					
Benefits	4,729,258	1,008,527	22,834	70,225	2,119
Refunds of Contributions	186,083	73,438			152
Transfers Out of Contributions	28,610	4,599			
Administrative Expenses	38,051	12,364	701	453	245
Total Deductions	<u>4,982,002</u>	<u>1,098,928</u>	<u>23,535</u>	<u>70,678</u>	<u>2,516</u>
INCREASE (DECREASE) IN NET ASSETS	<u>5,937,200</u>	<u>1,019,784</u>	<u>26,159</u>	<u>2,270</u>	<u>18,220</u>
NET ASSETS					
Net Assets, September 1, 2002	<u>71,695,802</u>	<u>16,447,569</u>	<u>567,934</u>	<u>236,318</u>	<u>96,865</u>
Net Assets, August 31, 2003	<u>\$ 77,633,002</u>	<u>\$ 17,467,353</u>	<u>\$ 594,093</u>	<u>\$ 238,588</u>	<u>\$ 115,085</u>

Fire Fighters' Relief and Retirement Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Judicial Retirement System - Plan One Fund	Totals
\$ 2,324	\$ 33,571	\$	\$	\$ 2,097,777
				310,347
				1,239,465
2	393	85		183,016
2,326	33,964	85	0	3,830,605
3,893				6,667,036
(309)	65	1		2,675,614
3,584	65	1	0	9,342,650
				15,046
3,584	65	1	0	9,327,604
				149,698
				113,006
				6,710
0	0	0	0	29,982
3,584	65	1	0	9,357,586
	18			195
		260	22,795	56,004
0	18	260	22,795	56,199
5,910	34,047	346	22,795	13,244,390
1,996	33,540		22,673	5,891,172
			2	259,675
				33,209
838	1,233	357	120	54,362
2,834	34,773	357	22,795	6,238,418
3,076	(726)	(11)	0	7,005,972
29,816	2,705	12	0	89,077,021
\$ 32,892	\$ 1,979	\$ 1	\$ 0	\$ 96,082,993

External Investment Trust Funds

The **Texas Government Investment Pool (TexPool) Trust Fund** is a local government investment pool administered by the Treasury Operations Division - Comptroller's office. The investor base consists of cities, counties, school districts, institutions of higher education, special districts, and other public entities of Texas.

The **Texas Treasury Safekeeping Trust Company Municipal Utility District Fund** is an investment pool available for municipal utility districts and is administered by the Texas Treasury Safekeeping Trust Company - Comptroller's office. The function of this fund is to invest moneys on behalf of these legally separate entities.

State of Texas
Combining Statement of Fiduciary Net Assets –
External Investment Trust Funds
August 31, 2003 (Amounts in Thousands)

	Texas Government Investment Pool (TexPool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
ASSETS			
Cash and Cash Equivalents	\$ 1	\$	\$ 1
Investments	11,278,872	721	11,279,593
Interest and Dividends Receivable	12,363		12,363
Total Assets	<u>11,291,236</u>	<u>721</u>	<u>11,291,957</u>
LIABILITIES			
Payables:			
Accounts	12,098		12,098
Investment Trades	99,500		99,500
Total Liabilities	<u>111,598</u>	<u>0</u>	<u>111,598</u>
NET ASSETS			
Net Assets Held in Trust for Pool Participants	<u>\$ 11,179,638</u>	<u>\$ 721</u>	<u>\$ 11,180,359</u>

State of Texas
Combining Statement of Changes in Fiduciary Net Assets –
External Investment Trust Funds
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Texas Government Investment Pool (TexPool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
ADDITIONS			
Investment Income:			
From Investing Activities:			
Interest and Investment Income	\$ 189,136	\$ 9	\$ 189,145
Total Investing Income	189,136	9	189,145
Less Investing Activities Expense	6,726		6,726
Net Income from Investing Activities	182,410	9	182,419
Capital Share and Individual Account Transactions:			
Net Increase (Decrease) in Participant Investments	779,664	(7)	779,657
INCREASE IN NET ASSETS	962,074	2	962,076
NET ASSETS			
Net Assets, September 1, 2002	10,253,241	719	10,253,960
Restatements	(35,677)		(35,677)
Net Assets, September 1, 2002, as Restated	10,217,564	719	10,218,283
Net Assets, August 31, 2003	<u>\$ 11,179,638</u>	<u>\$ 721</u>	<u>\$ 11,180,359</u>

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of political subdivisions.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity, and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the State of Texas.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

State of Texas
Combining Statement of Fiduciary Net Assets –
Private-Purpose Trust Funds
August 31, 2003 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Retired School Employees Group Insurance Trust	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Other Private- Purpose Trust Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$	\$ 6,730	\$ 103,063	\$ 304,559	\$ 9,556	\$ 423,908
Securities Lending Collateral	149,635					149,635
Investments	1,652,715	143	14,915		78,494	1,746,267
Receivables:						
Interest and Dividends	5,225				34	5,259
Other	8,778	22,582	87		394	31,841
Due From Other Funds		10,000				10,000
Properties, at Cost, net of Accumulated Depreciation					287	287
Other Assets			85,121		2	85,123
Total Assets	1,816,353	39,455	203,186	304,559	88,767	2,452,320
LIABILITIES						
Payables:						
Accounts	8,903	22,206			1,446	32,555
Payroll		97,814				97,814
Deferred Revenue					98	98
Due To Other Funds		2,358			10	2,368
Employees' Compensable Leave		44				44
Obligations/Securities Lending Funds Held for Others	149,635		85,202			149,635
Total Liabilities	158,538	122,422	85,202	0	1,554	367,716
NET ASSETS						
Net Assets Held in Trust for:						
Employees' Post-Employment Healthcare Benefits		(82,967)				(82,967)
Individuals, Organizations, and Other Governments	1,657,815		117,984	304,559	87,213	2,167,571
Total Net Assets	\$ 1,657,815	\$ (82,967)	\$ 117,984	\$ 304,559	\$ 87,213	\$ 2,084,604

State of Texas
Combining Statement of Changes in Fiduciary Net Assets –
Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Retired School Employees Group Insurance Trust	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Other Private- Purpose Trust Funds	Totals
ADDITIONS						
Investment Income:						
From Investing Activities:						
Net Appreciation in						
Fair Value of Investments	\$ 147,981	\$	\$	\$	\$ 2,455	\$ 150,436
Interest and Investment Income	39,223	3,395	1,899	4,010	3,335	51,862
Total Investing Income	187,204	3,395	1,899	4,010	5,790	202,298
Less Investing Activities Expense					64	64
Total Net Investment Income	187,204	3,395	1,899	4,010	5,726	202,234
Other Additions:						
Federal Revenue					1,409	1,409
Contributions to Employee Benefit Funds		212,088				212,088
Settlement of Claims	182,673				44	182,717
Other Revenue		36	62,685		250,436	313,157
Transfer In		870,886				870,886
Total Other Additions	182,673	1,083,010	62,685	0	251,889	1,580,257
Total Additions	369,877	1,086,405	64,584	4,010	257,615	1,782,491
DEDUCTIONS						
Benefits		591,133			909	592,042
Transfer Out		42,000		1,000	65,408	108,408
Intergovernmental Payments	22,041	606,163			124,706	752,910
Administrative Expenses	3,821	2,022	54,109	58	107,985	167,995
Total Deductions	25,862	1,241,318	54,109	1,058	299,008	1,621,355
INCREASE (DECREASE) IN NET ASSETS	344,015	(154,913)	10,475	2,952	(41,393)	161,136
NET ASSETS						
Net Assets, September 1, 2002	1,313,800	96,802	106,437	301,607	132,608	1,951,254
Restatements		(24,856)	1,072		(4,002)	(27,786)
Net Assets, September 1, 2002, as Restated	1,313,800	71,946	107,509	301,607	128,606	1,923,468
Net Assets, August 31, 2003	<u>\$1,657,815</u>	<u>\$ (82,967)</u>	<u>\$ 117,984</u>	<u>\$ 304,559</u>	<u>\$ 87,213</u>	<u>\$2,084,604</u>

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident, and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA), and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority, and special purpose district authorizing the collection.

State of Texas
Combining Statement of Fiduciary Net Assets –
Agency Funds

August 31, 2003 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident, and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA, and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$ 40	\$ 312	\$ 7,460	\$ 504,233	\$ 80,226	\$ 592,271
Investments	1,268,037				93,853	1,361,890
Receivables:						
Other Intergovernmental					1,326	1,326
Interest and Dividends	21,080		12		10	21,102
Taxes					27	27
Accounts					63,205	63,205
Due From Other Funds					32	32
Other Assets		940,805	619,254		75,383	1,635,442
Total Assets	<u>\$1,289,157</u>	<u>\$ 941,117</u>	<u>\$ 626,726</u>	<u>\$ 504,233</u>	<u>\$ 314,062</u>	<u>\$3,675,295</u>
LIABILITIES						
Payables:						
Accounts	\$	\$	\$	\$	10,050	\$ 10,050
Other Intergovernmental				504,233	2,782	507,015
Due To Other Funds					6,307	6,307
Interfund Payable					36	36
Funds Held for Others	1,289,157	941,117	626,726		294,887	3,151,887
Total Liabilities	<u>\$1,289,157</u>	<u>\$ 941,117</u>	<u>\$ 626,726</u>	<u>\$ 504,233</u>	<u>\$ 314,062</u>	<u>\$3,675,295</u>

State of Texas
Combining Statement of Changes in Assets and Liabilities –
Agency Funds
August 31, 2003 (Amounts in Thousands)

	Beginning Balance September 1, 2002	Additions	Deductions	Ending Balance August 31, 2003
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	\$ 39	\$ 1	\$	\$ 40
Investments	1,201,275	66,762		1,268,037
Interest and Dividends Receivable	35,770		14,690	21,080
Total Assets	<u>\$ 1,237,084</u>	<u>\$ 66,763</u>	<u>\$ 14,690</u>	<u>\$ 1,289,157</u>
LIABILITIES				
Funds Held for Others	\$ 1,237,084	\$ 52,073	\$	\$ 1,289,157
Total Liabilities	<u>\$ 1,237,084</u>	<u>\$ 52,073</u>	<u>\$ 0</u>	<u>\$ 1,289,157</u>
Life, Health, Accident, and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 316	\$ 316	\$ 320	\$ 312
Other Assets	963,753	940,805	963,753	940,805
Total Assets	<u>\$ 964,069</u>	<u>\$ 941,121</u>	<u>\$ 964,073</u>	<u>\$ 941,117</u>
LIABILITIES				
Funds Held for Others	\$ 964,069	\$ 941,121	\$ 964,073	\$ 941,117
Total Liabilities	<u>\$ 964,069</u>	<u>\$ 941,121</u>	<u>\$ 964,073</u>	<u>\$ 941,117</u>
Texas Workers' Compensation Self Insurance Fund				
ASSETS				
Cash and Cash Equivalents	\$ 12,113	\$ 16,584	\$ 21,237	\$ 7,460
Interest and Dividends Receivable	28	12	28	12
Other Assets	527,024	92,230		619,254
Total Assets	<u>\$ 539,165</u>	<u>\$ 108,826</u>	<u>\$ 21,265</u>	<u>\$ 626,726</u>
LIABILITIES				
Accounts Payable	\$	\$ 9,122	\$ 9,122	\$
Funds Held for Others	539,165	108,826	21,265	626,726
Total Liabilities	<u>\$ 539,165</u>	<u>\$ 117,948</u>	<u>\$ 30,387</u>	<u>\$ 626,726</u>
City, County, MTA, and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 500,428	\$ 4,950,585	\$ 4,946,780	\$ 504,233
Total Assets	<u>\$ 500,428</u>	<u>\$ 4,950,585</u>	<u>\$ 4,946,780</u>	<u>\$ 504,233</u>
LIABILITIES				
Payables:				
Accounts	\$	\$ 4,069,998	\$ 4,069,998	\$
Other Intergovernmental	500,428	504,233	500,428	504,233
Funds Held for Others		5,451,003	5,451,003	
Total Liabilities	<u>\$ 500,428</u>	<u>\$ 10,025,234</u>	<u>\$ 10,021,429</u>	<u>\$ 504,233</u>

Concluded on the following page

State of Texas
Combining Statement of Changes in Assets and Liabilities –
Agency Funds (concluded)
August 31, 2003 (Amounts in Thousands)

	Beginning Balance September 1, 2002	Additions	Deductions	Ending Balance August 31, 2003
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 61,606	\$ 8,655,227	\$ 8,636,607	\$ 80,226
Investments	22,191	72,474	812	93,853
Receivables:				
Other Intergovernmental	627	699		1,326
Interest and Dividends	17	9	16	10
Taxes	17	10		27
Accounts	54,638	171,194	162,627	63,205
Due From Other Funds	2,271	364	2,603	32
Other Assets	99,402	521	24,540	75,383
Total Assets	<u>\$ 240,769</u>	<u>\$ 8,900,498</u>	<u>\$ 8,827,205</u>	<u>\$ 314,062</u>
LIABILITIES				
Payables:				
Accounts	\$ 8,390	\$ 5,627,025	\$ 5,625,365	\$ 10,050
Other Intergovernmental	1,572	1,210		2,782
Due To Other Funds	2,544	2,390,834	2,387,071	6,307
Interfund Payable		104	68	36
Funds Held for Others	228,263	10,576,768	10,510,144	294,887
Total Liabilities	<u>\$ 240,769</u>	<u>\$ 18,595,941</u>	<u>\$ 18,522,648</u>	<u>\$ 314,062</u>
Totals - All Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 574,502	\$ 13,622,713	\$ 13,604,944	\$ 592,271
Investments	1,223,466	139,236	812	1,361,890
Receivables:				
Other Intergovernmental	627	699		1,326
Interest and Dividends	35,815	21	14,734	21,102
Taxes	17	10		27
Accounts	54,638	171,194	162,627	63,205
Due From Other Funds	2,271	364	2,603	32
Other Assets	1,590,179	1,033,556	988,293	1,635,442
Total Assets	<u>\$ 3,481,515</u>	<u>\$ 14,967,793</u>	<u>\$ 14,774,013</u>	<u>\$ 3,675,295</u>
LIABILITIES				
Payables:				
Accounts	\$ 8,390	\$ 9,706,145	\$ 9,704,485	\$ 10,050
Other Intergovernmental	502,000	505,443	500,428	507,015
Due To Other Funds	2,544	2,390,834	2,387,071	6,307
Interfund Payable		104	68	36
Funds Held for Others	2,968,581	17,129,791	16,946,485	3,151,887
Total Liabilities	<u>\$ 3,481,515</u>	<u>\$ 29,732,317</u>	<u>\$ 29,538,537</u>	<u>\$ 3,675,295</u>

Discretely Presented Component Units



Discretely Presented Component Units

There are seventeen discretely presented component units that are considered material to the state. Details regarding each component unit are included in Note 19. A Statement of Net Assets and a Statement of Activities has been prepared to report the breakdown of the following discretely presented component units:

State Bar of Texas
Texas Agricultural Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
Texas Guaranteed Student Loan Corporation
Texas Boll Weevil Eradication Foundation, Inc.
Texas Water Resources Finance Authority
Texas Small Business Industrial Development Corporation
Texas Economic Development Corporation
M.D. Anderson Cancer Center Services Corporation
U.T. Southwestern Moncrief Cancer Center
Texas Universities Health Plan, Inc.
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas State Affordable Housing Corporation

State of Texas
Combining Statement of Net Assets – Component Units
August 31, 2003 (Amounts in Thousands)

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 3,982	\$ 10,749	\$	\$	\$ 3	\$ 47,022
Investments	20,637					
Restricted:						
Cash and Cash Equivalents						
Loans and Contracts						
Receivables:						
Federal						18,916
Accounts	483					145
Interest and Dividends		17				1,410
Gifts						
Other	1,052					2,781
Due From Primary Government			1,314	45		
Due From Other Component Units						
Inventories	549			1		
Prepaid Items	737					
Loans and Contracts						
Other Current Assets						2,749
Total Current Assets	<u>27,440</u>	<u>10,766</u>	<u>1,314</u>	<u>46</u>	<u>3</u>	<u>73,023</u>
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Other Assets						
Loans and Contracts						
Investments						293,275
Capital Assets:						
Non-Depreciable	365					3,315
Depreciable	12,647			9		52,706
Accumulated Depreciation	(10,284)			(9)		(16,515)
Other Non-Current Assets						
Total Non-Current Assets	<u>2,728</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>332,781</u>
Total Assets	<u>30,168</u>	<u>10,766</u>	<u>1,314</u>	<u>46</u>	<u>3</u>	<u>405,804</u>

Continued on the following page

State of Texas
Combining Statement of Net Assets – Component Units (continued)
August 31, 2003 (Amounts in Thousands)

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation
LIABILITIES						
Current Liabilities:						
Payables:						
Federal	\$	\$	\$	\$	\$	\$
Accounts	2,057	1	1	18		18,987
Payroll				28		11,015
Due To Primary Government			379			
Due To Other Component Units		106				
Deferred Revenue	6,227					7,277
Notes and Loans Payable						1,342
Revenue Bonds Payable						
Employees' Compensable Leave	634			9		1,165
Capital Lease Obligations	175					
Liabilities Payable From Restricted Assets						2,781
Other Current Liabilities	1,126					
Total Current Liabilities	<u>10,219</u>	<u>107</u>	<u>380</u>	<u>55</u>	<u>0</u>	<u>42,567</u>
Non-Current Liabilities:						
Notes and Loans Payable						14,047
Revenue Bonds Payable						
Employees' Compensable Leave	341			3		498
Capital Lease Obligations	130					
Liabilities Payable From Restricted Assets						151,390
Other Non-Current Liabilities						47,269
Total Non-Current Liabilities	<u>471</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>213,204</u>
Total Liabilities	<u>10,690</u>	<u>107</u>	<u>380</u>	<u>58</u>	<u>0</u>	<u>255,771</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	3,040					22,121
Restricted for:						
Education						13,492
Capital Projects						
Other						
Unrestricted	16,438	10,659	934	(12)	3	114,420
Total Net Assets	<u>\$ 19,478</u>	<u>\$ 10,659</u>	<u>\$ 934</u>	<u>\$ (12)</u>	<u>\$ 3</u>	<u>\$ 150,033</u>

Continued on the following page

State of Texas
Combining Statement of Net Assets – Component Units (continued)
August 31, 2003 (Amounts in Thousands)

	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	M.D. Anderson Cancer Center Services Corporation	U.T. Southwestern Moncrief Cancer Center
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 65,924	\$	\$ 77,442	\$ 60	\$ 5,378	\$ 5,456
Investments		23,067				
Restricted:						
Cash and Cash Equivalents						29
Loans and Contracts						
Receivables:						
Federal	6,755					
Accounts	8,163					1,109
Interest and Dividends	140	2,189	96			
Gifts						1,607
Other	8,303				19	484
Due From Primary Government						
Due From Other Component Units	155					
Inventories	537					
Prepaid Items	891					
Loans and Contracts	13,548	9,547				
Other Current Assets					110	194
Total Current Assets	<u>104,416</u>	<u>34,803</u>	<u>77,538</u>	<u>60</u>	<u>5,507</u>	<u>8,879</u>
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments					1,090	34,863
Loans and Contracts						
Other Assets					408	
Loans and Contracts		55,164				
Investments		27,565	22,050			
Capital Assets:						
Non-Depreciable						3,152
Depreciable	31,077				463	22,175
Accumulated Depreciation	(14,588)				(441)	(7,002)
Other Non-Current Assets	3,842					
Total Non-Current Assets	<u>20,331</u>	<u>82,729</u>	<u>22,050</u>	<u>0</u>	<u>1,520</u>	<u>53,188</u>
Total Assets	<u>124,747</u>	<u>117,532</u>	<u>99,588</u>	<u>60</u>	<u>7,027</u>	<u>62,067</u>

Continued on the following page

State of Texas
Combining Statement of Net Assets – Component Units (continued)
August 31, 2003 (Amounts in Thousands)

	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	M.D. Anderson Cancer Center Services Corporation	U.T. Southwestern Moncrief Cancer Center
LIABILITIES						
Current Liabilities:						
Payables:						
Federal	\$	\$	\$	\$	\$	\$
Accounts	1,001		9		325	545
Payroll						
Due To Primary Government		33				
Due To Other Component Units	49					3
Deferred Revenue	17					
Notes and Loans Payable	56,071					413
Revenue Bonds Payable		11,075				
Employees' Compensable Leave	772					147
Capital Lease Obligations						21
Liabilities Payable From Restricted Assets						
Other Current Liabilities	3,532	141	66			1
Total Current Liabilities	<u>61,442</u>	<u>11,249</u>	<u>75</u>	<u>0</u>	<u>325</u>	<u>1,130</u>
Non-Current Liabilities:						
Notes and Loans Payable	179,233					1,787
Revenue Bonds Payable		40,179	99,335			
Employees' Compensable Leave	370					115
Capital Lease Obligations						22
Liabilities Payable From Restricted Assets						
Other Non-Current Liabilities					180	
Total Non-Current Liabilities	<u>179,603</u>	<u>40,179</u>	<u>99,335</u>	<u>0</u>	<u>180</u>	<u>1,924</u>
Total Liabilities	<u>241,045</u>	<u>51,428</u>	<u>99,410</u>	<u>0</u>	<u>505</u>	<u>3,054</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	375				21	16,081
Restricted for:						
Education						
Capital Projects						220
Other						34,892
Unrestricted	(116,673)	66,104	178	60	6,501	7,820
Total Net Assets	<u>\$ (116,298)</u>	<u>\$ 66,104</u>	<u>\$ 178</u>	<u>\$ 60</u>	<u>\$ 6,522</u>	<u>\$ 59,013</u>

Continued on the following page

State of Texas
Combining Statement of Net Assets – Component Units (continued)
August 31, 2003 (Amounts in Thousands)

	Texas Universities Health Plan, Inc.	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 1,896	\$ 5,014	\$ 643	\$ (1,050)	\$ 6,214	\$ 228,733
Investments				32,869		76,573
Restricted:						
Cash and Cash Equivalents						29
Loans and Contracts					48	48
Receivables:						
Federal						25,671
Accounts		541		1,043	783	12,267
Interest and Dividends	2				5	3,859
Gifts						1,607
Other	122	163	6,519			19,443
Due From Primary Government						1,359
Due From Other Component Units						155
Inventories						1,087
Prepaid Items					2,106	3,734
Loans and Contracts						23,095
Other Current Assets	33					3,086
Total Current Assets	2,053	5,718	7,162	32,862	9,156	400,746
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents					623	623
Investments	250				21,970	58,173
Loans and Contracts					1,835	1,835
Other Assets						408
Loans and Contracts						55,164
Investments					156	343,046
Capital Assets:						
Non-Depreciable						6,832
Depreciable	120	2,810		27	183	122,217
Accumulated Depreciation	(69)	(978)		(17)	(127)	(50,030)
Other Non-Current Assets		19		1	83	3,945
Total Non-Current Assets	301	1,851	0	11	24,723	542,213
Total Assets	2,354	7,569	7,162	32,873	33,879	942,959

Concluded on the following page

State of Texas
Combining Statement of Net Assets – Component Units (concluded)
August 31, 2003 (Amounts in Thousands)

	Texas Universities Health Plan, Inc.	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
LIABILITIES						
Current Liabilities:						
Payables:						
Federal	\$	\$	\$	\$	\$	\$
Accounts	15	192	49	796	318 89	19,305 16,113
Payroll						28
Due To Primary Government						412
Due To Other Component Units						155
Deferred Revenue				14,877		28,401
Notes and Loans Payable			1,500			59,326
Revenue Bonds Payable					294	11,369
Employees' Compensable Leave						2,727
Capital Lease Obligations						196
Liabilities Payable From Restricted Assets						2,781
Other Current Liabilities*		73	5,613	1,100	636	12,288
Total Current Liabilities	15	265	7,162	16,773	1,337	153,101
Non-Current Liabilities:						
Notes and Loans Payable					1,000	196,067
Revenue Bonds Payable					22,135	161,649
Employees' Compensable Leave						1,327
Capital Lease Obligations						152
Liabilities Payable From Restricted Assets						151,390
Other Non-Current Liabilities				16,100	638	64,187
Total Non-Current Liabilities	0	0	0	16,100	23,773	574,772
Total Liabilities	15	265	7,162	32,873	25,110	727,873
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	52	1,833			(278)	43,245
Restricted for:						
Education						13,492
Capital Projects						220
Other					331	35,223
Unrestricted	2,287	5,471			8,716	122,906
Total Net Assets	\$ 2,339	\$ 7,304	\$ 0	\$ 0	\$ 8,769	\$ 215,086

* Of the \$12,288, the current portion of Long-Term Liabilities is \$248, and is reported in Note 5, whereas \$12,040 is Current Liabilities.

State of Texas
Combining Statement of Activities – Component Units
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
EXPENSES					
Salaries and Wages	\$ 12,728	\$ 49	\$ 1	\$ 272	\$
Payroll Related Costs	3,130	8		73	
Professional Fees and Services	2,045		347		
Travel	1,833	1	6	9	
Materials and Supplies	238	1	6	24	
Communications and Utilities	645	1		5	
Repairs and Maintenance	323			3	
Rentals and Leases	1,984			38	
Printing and Reproduction	2,668	1	1	1	
Claims and Judgments	377				
Depreciation and Amortization	1,153			1	
Interest Expense - Other					
Other Expenses	8,102	215	16	28	162
Total Expenses	<u>35,226</u>	<u>276</u>	<u>377</u>	<u>454</u>	<u>162</u>
PROGRAM REVENUES					
Charges for Services	34,399			20	1
Operating Grants and Contributions	1,130				162
Capital Grants and Contributions					
Total Program Revenues	<u>35,529</u>	<u>0</u>	<u>0</u>	<u>20</u>	<u>163</u>
Net Program Revenues (Expenses)	<u>303</u>	<u>(276)</u>	<u>(377)</u>	<u>(434)</u>	<u>1</u>
GENERAL REVENUES					
Unrestricted Investment Earnings		211			
Gain (Loss) on Sale of Capital Assets					
Other Revenues		1	658	423	
Total General Revenues	<u>0</u>	<u>212</u>	<u>658</u>	<u>423</u>	<u>0</u>
Change in Net Assets	<u>303</u>	<u>(64)</u>	<u>281</u>	<u>(11)</u>	<u>1</u>
Net Assets, September 1, 2002	19,435	10,899		(1)	2
Restatements	(260)	(176)	653		
Net Assets, September 1, 2002, as Restated	<u>19,175</u>	<u>10,723</u>	<u>653</u>	<u>(1)</u>	<u>2</u>
Net Assets, August 31, 2003	<u>\$ 19,478</u>	<u>\$ 10,659</u>	<u>\$ 934</u>	<u>\$ (12)</u>	<u>\$ 3</u>

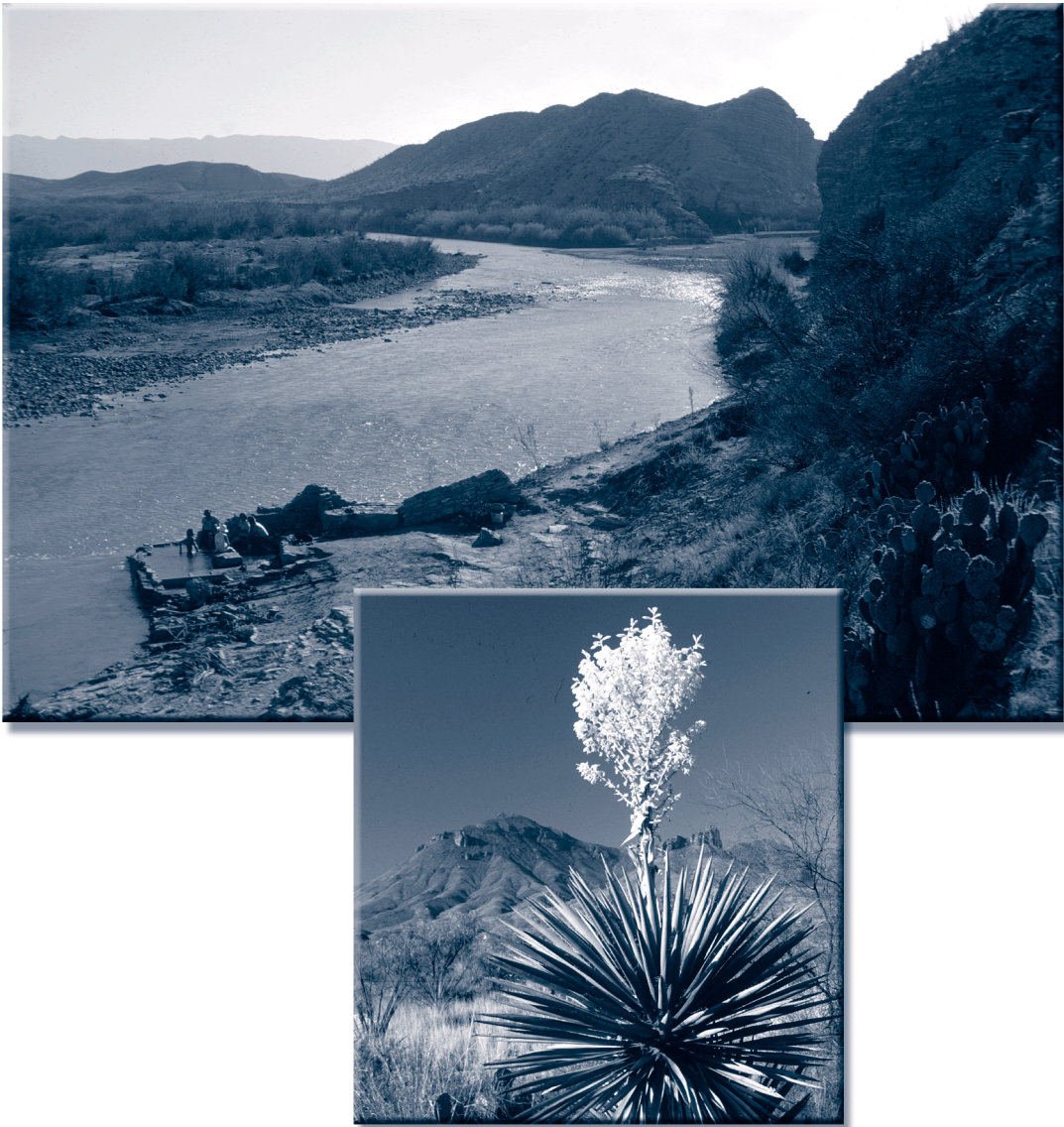
Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	M.D. Anderson Cancer Center Services Corporation	U.T. Southwestern Moncrief Cancer Center	Texas Universities Health Plan, Inc.
\$ 29,926	\$ 24,221	\$ 286	\$	\$	\$ 401	\$ 3,996	\$ 655
8,125	5,076	43			92	960	90
23,872	744	7	18		108	195	15,836
2,058	252	2		9	65	50	16
3,782	22,881	5		13	7	498	19
1,378	894	3		2	5	255	25
2,019	1,969				7	491	
5,309	3,341	4		48	43	249	64
365				1		17	79
	1,736						
3,253	4,813				101	2,255	25
	12,079	5,391	1,659			14	
1,871	14,987	8,386	202	13		3,306	2,766
81,958	92,993	14,127	1,879	86	829	12,286	19,575
1,139	53,358			104		10,136	
74,196	27,190	7,970	1,857		1,097	4,685	19,023
						1,160	
75,335	80,548	7,970	1,857	104	1,097	15,981	19,023
(6,623)	(12,445)	(6,157)	(22)	18	268	3,695	(552)
3,526	770			1			
	228						
58,175	25,169					48	
61,701	26,167	0	0	1	0	48	0
55,078	13,722	(6,157)	(22)	19	268	3,743	(552)
94,955	(125,609)	72,261	200	41	6,314	23,393	2,891
	(4,411)				(60)	31,877	
94,955	(130,020)	72,261	200	41	6,254	55,270	2,891
<u>\$ 150,033</u>	<u>\$ (116,298)</u>	<u>\$ 66,104</u>	<u>\$ 178</u>	<u>\$ 60</u>	<u>\$ 6,522</u>	<u>\$ 59,013</u>	<u>\$ 2,339</u>

Concluded on the following page

State of Texas
Combining Statement of Activities – Component Units (concluded)
For the Fiscal Year Ended August 31, 2003 (Amounts in Thousands)

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
EXPENSES					
Salaries and Wages	\$ 1,040	\$	\$ 202	\$ 849	\$ 74,626
Payroll Related Costs	350			199	18,146
Professional Fees and Services	172		11,284	1,067	55,695
Travel	3		1	81	4,386
Materials and Supplies	102		49		27,625
Communications and Utilities	16				3,229
Repairs and Maintenance	17				4,829
Rentals and Leases	286		37	121	11,524
Printing and Reproduction	10				3,143
Claims and Judgments					2,113
Depreciation and Amortization	340		5	321	12,267
Interest Expense - Other					19,143
Other Expenses	160	10,051	137,051	1,599	188,915
Total Expenses	<u>2,496</u>	<u>10,051</u>	<u>148,629</u>	<u>4,237</u>	<u>425,641</u>
PROGRAM REVENUES					
Charges for Services	5,530	9,539	147,890	3,608	265,724
Operating Grants and Contributions	40	27	739	757	138,873
Capital Grants and Contributions					1,160
Total Program Revenues	<u>5,570</u>	<u>9,566</u>	<u>148,629</u>	<u>4,365</u>	<u>405,757</u>
Net Program Revenues (Expenses)	<u>3,074</u>	<u>(485)</u>	<u>0</u>	<u>128</u>	<u>(19,884)</u>
GENERAL REVENUES					
Unrestricted Investment Earnings				70	4,578
Gain (Loss) on Sale of Capital Assets					228
Other Revenues					84,474
Total General Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>70</u>	<u>89,280</u>
Change in Net Assets	<u>3,074</u>	<u>(485)</u>	<u>0</u>	<u>198</u>	<u>69,396</u>
Net Assets, September 1, 2002	4,463	485		8,571	118,300
Restatements	(233)				27,390
Net Assets, September 1, 2002, as Restated	<u>4,230</u>	<u>485</u>	<u>0</u>	<u>8,571</u>	<u>145,690</u>
Net Assets, August 31, 2003	<u>\$ 7,304</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,769</u>	<u>\$ 215,086</u>

Statistical Section



State of Texas
Governmental Fund Revenues by Source and
Expenditures by Function
Last Ten Years*
(Amounts in Millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
REVENUES BY SOURCE										
Tax Collections	\$25,939	\$25,123	\$27,045	\$25,226	\$23,499	\$22,590	\$21,071	\$19,872	\$18,781	\$18,117
Federal Funds	23,017	20,310	17,319	16,170	15,316	14,209	14,043	14,068	13,925	8,766
Licenses, Fees and Permits	2,921	2,815	2,960	2,915	2,826	2,741	2,491	2,575	2,315	2,422
Interest and Other Investment										
Income	2,118	1,233	1,705	1,578	1,328	1,250	1,417	1,072	1,179	1,090
Land Income	298	18	46	11	10	15	13	10	8	9
Sales of Goods & Services	1,131	962	689	578	664	610	636	517	547	503
Other Revenues	2,027	1,783	1,854	1,551	2,492	906	936	686	732	489
Total Revenues	<u>\$57,451</u>	<u>\$52,244</u>	<u>\$51,618</u>	<u>\$48,029</u>	<u>\$46,135</u>	<u>\$42,321</u>	<u>\$40,607</u>	<u>\$38,800</u>	<u>\$37,487</u>	<u>\$31,396</u>
EXPENDITURES BY FUNCTION										
General Government	\$ 1,961	\$ 1,842	\$ 1,902	\$ 1,798	\$ 1,673	\$ 1,496	\$ 1,342	\$ 1,306	\$ 1,590	\$ 1,074
Education	15,927	15,739	15,057	14,743	12,640	12,726	12,429	11,872	11,540	9,370
Employee Benefits	12	15	8	8	7	7	2	2	8	8
Health and Human Services	24,690	22,394	19,036	17,878	17,082	16,005	16,111	16,201	15,575	12,486
Public Safety and Corrections	4,067	4,037	3,812	3,554	3,332	3,136	2,914	2,688	2,570	2,460
Transportation	3,065	3,097	4,720	4,612	3,922	3,398	3,194	3,536	2,965	2,888
Natural Resources and										
Recreational Services	787	713	704	672	712	652	675	594	590	514
Regulatory Agencies	311	270	260	243	235	228	214	213	226	239
Debt Service	727	626	1,107	971	875	1,169	771	745	1,007	688
Capital Outlay	2,654	2,274	389	517	548	355	380	499	1,083	1,002
Total Expenditures	<u>54,201</u>	<u>51,007</u>	<u>46,995</u>	<u>44,996</u>	<u>41,026</u>	<u>39,172</u>	<u>38,032</u>	<u>37,656</u>	<u>37,154</u>	<u>30,729</u>
EXCESS REVENUES										
(EXPENDITURES)	<u>\$ 3,250</u>	<u>\$ 1,237</u>	<u>\$ 4,623</u>	<u>\$ 3,033</u>	<u>\$ 5,109</u>	<u>\$ 3,149</u>	<u>\$ 2,575</u>	<u>\$ 1,144</u>	<u>\$ 333</u>	<u>\$ 667</u>

* This table is comprised of the following funds: General, Special Revenue, Debt Service, Capital Projects, and Permanent.

Source: State of Texas Financial Statements 1994-2003.

State Tax Collections Per Capita Last Ten Years*

(Amounts in Millions, Except State Tax Collections Per Capita and Percentage Data)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Tax Collections	\$25,939	\$25,123	\$27,045	\$25,226	\$23,499	\$22,590	\$21,071	\$19,872	\$18,781	\$18,117
Percentage Tax Collection Change From Prior Year	3.25%	(7.11)%	7.21%	7.35%	4.02%	7.21%	6.03%	5.81%	3.67%	5.63%
Resident Population	22.24	21.83	21.42	21.00	20.60	20.20	19.79	19.39	19.00	18.61
Percentage Population Change From Prior Year	1.88%	1.91%	2.00%	1.94%	1.98%	2.07%	2.06%	2.05%	2.10%	2.48%
State Tax Collections Per Capita	\$ 1,166	\$ 1,157	\$ 1,268	\$ 1,204	\$ 1,143	\$ 1,121	\$ 1,067	\$ 1,028	\$ 991	\$ 976

* This table is comprised of the following funds: General, Special Revenue, Debt Service, and Capital Projects.

Source: Tax collections figures taken from the 1994-2003 State of Texas Financial Statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

State of Texas General Bonded Debt Per Capita Last Ten Years*

(Amounts in Millions, Except General Bonded Debt Per Capita and Percentage Data)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Bonded Debt (General Obligation Bonds Only)	\$ 5,784	\$ 5,756	\$ 5,271	\$ 5,143	\$ 4,920	\$ 5,000	\$ 4,931	\$ 4,962	\$ 4,570	\$ 3,963
Percentage Bonded Debt Change From Prior Year	0.49%	9.20%	2.49%	4.53%	(1.60)%	1.40%	(0.62)%	8.58%	15.32%	15.74%
Resident Population	22.24	21.83	21.42	21.00	20.60	20.20	19.79	19.39	19.00	18.61
Percentage Population Change From Prior Year	1.88%	1.91%	2.00%	1.94%	1.98%	2.07%	2.06%	2.05%	2.10%	2.48%
General Bonded Debt Per Capita	\$ 260	\$ 265	\$ 247	\$ 245	\$ 239	\$ 248	\$ 250	\$ 257	\$ 241	\$ 214

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators, and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Tax collections figures taken from the 1994-2003 State of Texas Financial Statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years.

State of Texas
Ratio of Annual Debt Service Requirements
for General Bonded Debt to Total
Governmental Fund Type Expenditures
Last Ten Years*

(Amounts in Thousands, Except Percentage Data)

Fiscal Year	Total Debt Service**	Total Expenditures	Ratio of Debt Service to Expenditures
2003	\$568,446	\$54,201,162	1.05%
2002	\$590,500	\$51,012,761	1.16%
2001	\$537,040	\$46,995,249	1.14%
2000	\$514,929	\$44,995,790	1.14%
1999	\$538,212	\$41,025,727	1.31%
1998	\$508,415	\$39,172,095	1.30%
1997	\$495,515	\$38,031,899	1.30%
1996	\$446,456	\$37,656,055	1.19%
1995	\$428,446	\$37,154,145	1.15%
1994	\$382,263	\$30,728,317	1.24%

* This table is comprised of the following funds: General, Special Revenue, Debt Service, Capital Projects, and Permanent.

** Debt Service requirements include scheduled principal and interest payments. Payments for refundings are excluded.
The following bonds are included: Veterans Bonds; Water Bonds; Park Developments Bonds; College Student Loan Bonds;
Higher Education Constitutional Bonds; and Public Finance Authority Bonds.

Source: 1994-2003 State of Texas Financial Statements.

State of Texas
Revenue Bond Coverage
Last Ten Years
(Amounts in Thousands)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Total Pledged Sources and Other Sources*	\$6,512,818	\$7,356,581	\$5,456,773	\$5,017,262	\$4,527,904	\$4,063,737	\$3,631,993	\$3,902,440	\$3,483,757	\$3,171,459
Operating and Capital Outlay Expenditures/ Expenses	548,010	210,734	97,341	89,534	75,865	101,765	106,857	126,377	128,275	130,544
Net Revenue Available for Debt Service	<u>\$5,964,808</u>	<u>\$7,145,847</u>	<u>\$5,359,432</u>	<u>\$4,927,728</u>	<u>\$4,452,039</u>	<u>\$3,961,972</u>	<u>\$3,525,136</u>	<u>\$3,776,063</u>	<u>\$3,355,482</u>	<u>\$3,040,915</u>
Scheduled Debt Service Payments:										
Principal	\$ 582,368	\$ 325,404	\$ 306,937	\$ 287,799	\$ 275,543	\$ 251,852	\$ 248,574	\$ 216,887	\$ 222,021	\$ 237,881
Interest	415,690	404,868	393,679	391,527	352,989	351,610	380,867	345,927	363,995	377,105
Total Debt Service	<u>\$ 998,058</u>	<u>\$ 730,272</u>	<u>\$ 700,616</u>	<u>\$ 679,326</u>	<u>\$ 628,532</u>	<u>\$ 603,462</u>	<u>\$ 629,441</u>	<u>\$ 562,814</u>	<u>\$ 586,016</u>	<u>\$ 614,986</u>
Coverage	5.97	9.79	7.65	7.25	7.08	6.57	5.60	6.71	5.73	4.94

* Includes operating revenues, interest earned on investments, other pledged revenues, and other sources.

Source: 1994-2003 State of Texas Annual Financial Statements.

State of Texas
Texas Gross State Product by Industry, 1994-2003
(Amounts in Millions)

Industry	1994	1995	1996	1997	1998	1999	2000	2001	2002*	2003*
Agriculture	\$ 7,740	\$ 7,374	\$ 7,175	\$ 8,331	\$ 8,197	\$ 9,410	\$ 9,585	\$ 9,575	\$ 10,520	\$ 11,024
% Change	(1.2)	(4.7)	(2.7)	16.1	(1.6)	14.8	1.9	(0.1)	9.9	4.8
Mining	31,848	33,470	41,543	44,289	35,601	33,081	45,499	47,890	45,728	52,256
% Change	(6.8)	5.1	24.1	6.6	(19.6)	(7.1)	37.5	5.3	(4.5)	14.3
Construction	20,346	21,945	24,433	25,498	29,262	33,133	36,295	37,846	40,130	41,124
% Change	10.7	7.9	11.3	4.4	14.8	13.2	9.5	4.3	6.0	2.5
Manufacturing	73,436	78,902	81,214	90,363	94,199	93,853	95,935	93,754	90,821	92,201
% Change	15.2	7.4	2.9	11.3	4.2	(0.4)	2.2	(2.3)	(3.1)	1.5
Transportation and Utilities	53,815	56,945	61,452	65,662	70,595	75,547	82,999	83,010	85,676	89,222
% Change	6.7	5.8	7.9	6.9	7.5	7.0	9.9	0.0	3.2	4.1
Wholesale and Retail Trade	80,313	85,130	91,281	100,803	110,401	119,002	128,695	131,723	134,648	138,549
% Change	8.7	6.0	7.2	10.4	9.5	7.8	8.1	2.4	2.2	2.9
Finance, Insurance, and Real Estate	68,013	72,892	77,744	89,235	95,857	102,165	111,458	118,235	120,253	123,915
% Change	4.3	7.2	6.7	14.8	7.4	6.6	9.1	6.1	1.7	3.0
Services	87,377	94,537	103,160	115,542	125,615	136,668	146,172	156,410	160,572	165,078
% Change	6.7	8.2	9.1	12.0	8.7	8.8	7.0	7.0	2.7	2.8
Local, State, and Federal Government	59,819	62,687	65,178	68,898	71,679	75,948	81,633	85,431	88,886	92,797
% Change	4.8	4.8	4.0	5.7	4.0	6.0	7.5	4.7	4.0	4.4
TOTAL	\$482,707	\$513,882	\$553,180	\$608,621	\$641,406	\$678,807	\$738,271	\$763,874	\$777,234	\$806,166
% Change	6.6	6.5	7.6	10.0	5.4	5.8	8.8	3.5	1.7	3.7
TOTAL (In 1996 \$)	\$504,252	\$527,685	\$553,180	\$597,889	\$631,688	\$660,534	\$688,473	\$698,547	\$701,760	\$717,458
% Change	4.5	4.6	4.8	8.1	5.7	4.6	4.2	1.5	0.5	2.2

* 2002 and 2003 numbers are estimated from incomplete data and based on income.

Source: U.S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

State of Texas
Texas Salary Earnings by Industry, 1994–2003
(Amounts in Millions)

Industry	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Agriculture, Forestry, and Fishing % Change	\$ 920 (2.7)	\$ 1,048 14.0	\$ 1,056 0.8	\$ 1,139 7.9	\$ 1,161 1.9	\$ 1,315 13.3	\$ 1,292 (1.7)	\$ 1,479 14.5	\$ 1,574 6.4	\$ 1,675 6.4
Natural Resources and Mining % Change	8,318 1.6	8,437 1.4	8,942 6.0	10,229 14.4	10,913 6.7	10,316 (5.5)	11,616 12.6	12,639 8.8	12,245 (3.1)	12,326 0.7
Construction % Change	10,669 11.3	11,977 12.3	13,404 11.9	14,750 10.0	16,733 13.4	18,495 10.5	20,606 11.4	21,533 4.5	21,405 (0.6)	20,571 (3.9)
Manufacturing % Change	31,994 5.1	34,277 7.1	36,418 6.2	39,559 8.6	43,846 10.8	44,790 2.2	47,749 6.6	47,939 0.4	44,859 (6.4)	44,178 (1.5)
Trade, Transportation, and Utilities % Change	42,929 5.3	45,887 6.9	49,053 6.9	53,823 9.7	59,788 11.1	65,526 9.6	71,916 9.8	72,578 0.9	70,221 (3.2)	69,834 (0.6)
Information % Change	10,748 6.4	11,188 4.1	11,574 3.5	12,484 7.9	13,303 6.6	14,090 5.9	14,925 5.9	14,840 (0.6)	13,418 (9.6)	13,879 3.4
Financial Activities, incl. Real Estate % Change	15,044 3.8	15,659 4.1	17,236 10.1	19,212 11.5	21,778 13.4	23,339 7.2	25,628 9.8	27,595 7.7	27,866 1.0	28,842 3.5
Professional and Business Services % Change	22,103 8.4	24,606 11.3	27,503 11.8	32,096 16.7	36,897 15.0	40,712 10.3	45,866 12.7	47,724 4.1	46,745 (2.1)	48,523 3.8
Educational and Health Services % Change	16,503 5.0	18,204 10.3	19,981 9.8	22,390 12.1	24,484 9.4	26,100 6.6	28,498 9.2	31,237 9.6	33,786 8.2	36,471 7.9
Leisure, Hospitality, and Other Services % Change	12,611 4.2	13,772 9.2	14,910 8.3	16,529 10.9	18,090 9.4	19,532 8.0	21,368 9.4	22,583 5.7	22,896 1.4	22,810 (0.4)
Local, State, and Federal Government % Change	38,961 4.4	40,738 4.6	42,233 3.7	44,210 4.7	46,506 5.2	48,994 5.3	52,562 7.3	54,971 4.6	58,854 7.1	61,308 4.2
TOTAL** % Change	\$210,800 5.4	\$225,793 7.1	\$242,311 7.3	\$266,422 10.0	\$293,500 10.2	\$313,208 6.7	\$342,028 9.2	\$355,118 3.8	\$353,867 (0.4)	\$360,417 1.9

* 2003 numbers are estimated from incomplete data.

** Totals may not sum exactly because of rounding.

Source: U. S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts (2003 estimates). The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

Texas and U.S. Total Personal Income, Population, and Per Capita Income, 1994-2003

Year	Total Personal Income (Million \$)				Population (Thousands)				Per Capita Income (\$)			
	Texas	Percent Change	U. S.	Percent Change	Texas	Percent Change	U. S.	Percent Change	Texas	Percent Change	U. S.	Percent Change
1994	377,583	5.8%	5,888,050	5.0%	18,611	2.4%	263,565	1.2%	20,288	3.5%	22,340	3.7%
1995	402,097	6.5%	6,200,930	5.3%	19,004	2.1%	266,649	1.2%	21,159	4.3%	23,255	4.1%
1996	428,727	6.6%	6,547,380	5.6%	19,390	2.0%	270,080	1.3%	22,111	4.5%	24,242	4.2%
1997	468,950	9.4%	6,937,010	6.0%	19,792	2.1%	273,290	1.2%	23,694	7.2%	25,383	4.7%
1998	511,964	9.2%	7,426,030	7.0%	20,205	2.1%	276,490	1.2%	25,339	6.9%	26,858	5.8%
1999	539,527	5.4%	7,786,500	4.9%	20,605	2.0%	279,670	1.2%	26,184	3.3%	27,842	3.7%
2000	586,587	8.7%	8,406,560	8.0%	21,006	1.9%	282,830	1.1%	27,925	6.6%	29,723	6.8%
2001	608,466	3.7%	8,685,330	3.3%	21,420	2.0%	285,930	1.1%	28,406	1.7%	30,376	2.2%
2002	618,561	1.7%	8,922,220	2.7%	21,831	1.9%	288,930	1.0%	28,334	(0.3)%	30,880	1.7%
2003*	641,694	3.7%	9,224,690	3.4%	22,242	1.9%	291,700	1.0%	28,851	1.8%	31,624	2.4%

* 2003 estimates based on data available to date.

Source: U.S. Bureau of Economic Analysis. Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

Texas and U.S. Employment and Unemployment Rates, 1994-2003 (Thousands of Jobs and Percent)

Year	Nonfarm Employment				Unemployment Percentage Rate	
	Texas	Percent Change	U. S.	Percent Change	Texas	U.S.
1994	7,750	4%	114,280	3%	6.4	6.1
1995	8,023	4%	117,310	3%	6.0	5.6
1996	8,256	3%	119,700	2%	5.6	5.4
1997	8,608	4%	122,770	3%	5.4	4.9
1998	8,940	4%	125,920	3%	4.8	4.5
1999	9,160	2%	128,990	2%	4.6	4.2
2000	9,433	3%	131,790	2%	4.2	4.0
2001	9,519	1%	131,830	0%	4.8	4.8
2002*	9,427	(1)%	130,380	(1)%	6.4	5.8
2003*	9,449	0%	130,060	(0)%	6.5	6.0

* 2002 and 2003 numbers are subject to benchmark revisions.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts, and U.S. Bureau of Labor Statistics.
Historical data have been revised.
The data in this table represents estimated annual averages of monthly data.

State of Texas

Residential and Nonresidential Construction, 1994-2003

Calendar Year	Single Family Housing Starts	Multiple Family Housing Starts	Total Residential Housing Starts	Nonresidential Construction (Thous. Sq. Ft)
1994	79,188	31,210	110,398	89,922
1995	77,929	33,229	111,158	92,808
1996	90,308	31,211	121,519	100,514
1997	88,011	43,966	131,977	120,162
1998	107,112	52,586	159,698	161,646
1999	106,164	40,614	146,778	158,660
2000	111,309	32,338	143,647	162,335
2001*	118,016	29,196	147,212	160,293
2002*	124,822	32,924	157,746	132,290
2003**	123,848	40,436	164,284	137,884

* 2001 and 2002 numbers have been revised.

** 2003 housing start numbers are based on the number of residential permits issued during the year.

Nonresidential construction in 2003 is based on a combination of available data and the Comptroller's forecast model.

Source: U. S. Bureau of the Census, Global Insight, Inc., the Real Estate Center at Texas A&M University, and Texas Comptroller of Public Accounts. The Bureau and Global Insight revised historical data in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

State of Texas

Market Value of Taxable Property, 1993-2002*

(Billions of Dollars)

Year	Value	% Change
1993	\$ 627.7	1.1%
1994	\$ 636.7	1.4%
1995	\$ 660.5	3.7%
1996	\$ 661.2	0.1%
1997	\$ 708.9	7.2%
1998	\$ 747.4	5.4%
1999	\$ 793.0	6.1%
2000	\$ 863.1	8.8%
2001	\$ 943.3	9.3%
2002	\$ 1,000.7	6.1%

* Market Value numbers for 2003 were not yet available at the time of publication.

Source: Property Tax Division, Texas Comptroller of Public Accounts.

Numbers reflect taxable value of real and personal property as estimated for school district funding.

Texas Banking Activity, 1994-2003

All Commercial Banks Headquartered in Texas

(Millions of Dollars)

Calendar Year	Total Assets	Percent Change in Assets	Total Deposits	Total Equity Capital	Total Loans	Number of Reporting Institutions
1994	\$188,088	2.2%	\$153,405	\$14,780	\$ 98,336	980
1995	\$202,718	7.8%	\$155,286	\$16,373	\$112,394	935
1996	\$205,184	1.2%	\$168,218	\$17,259	\$104,950	877
1997	\$235,098	14.6%	\$191,791	\$19,416	\$119,668	838
1998*	\$179,694	(23.6)%	\$149,093	\$15,257	\$ 94,152	798
1999	\$181,144	0.8%	\$143,242	\$14,742	\$ 99,584	753
2000*	\$166,352	(8.2)%	\$133,164	\$14,297	\$ 96,236	709
2001*	\$144,674	(13.0)%	\$120,867	\$13,678	\$ 78,284	686
2002	\$157,401	8.8%	\$129,087	\$15,408	\$ 84,220	669
2003**	\$159,194	1.1%	\$131,512	\$15,487	\$ 84,512	660

* In 1998, a large Texas bank was merged, moving it to out-of-state status. In 2000-2001, two large merger/acquisitions of Texas banks by out-of-state headquarters accounted for a loss of \$50 billion in Texas-headquartered assets.

** In 2003, data are for the first three quarters of the calendar year, with growth rates from the first three quarters of 2002.

Source: Federal Deposit Insurance Corporation (FDIC).

State of Texas

Total Retail Sales, 1994-2003

Year	Million \$	Percent Change
1994	\$185,450	9.7%
1995	\$198,825	7.2%
1996	\$216,302	8.8%
1997	\$232,711	7.6%
1998	\$244,911	5.2%
1999	\$265,073	8.2%
2000*	\$298,600	12.6%
2001*	\$306,593	2.7%
2002*	\$287,771	(6.1)%
2003**	\$145,612	6.0%

* 2000, 2001, and 2002 numbers have been revised.

** First half of 2003 and the percentage change over the first half of 2002.

Source: Texas Comptroller of Public Accounts.

State of Texas
Texas Public School Enrollment
By Grade and Ethnic Grouping
1992-93 Through 2002-03

Academic Year	Grade				All Grades	Percent Increase
	K-3	4-6	7-9	10-12		
1992-93	1,134,383	845,771	835,142	613,276	3,428,572	2.0%
1993-94	1,145,701	854,150	869,217	618,748	3,487,816	1.7%
1994-95	1,153,255	866,810	894,984	633,386	3,548,435	1.7%
1995-96	1,171,927	874,527	912,884	655,075	3,614,413	1.9%
1996-97	1,192,932	887,512	931,356	685,413	3,697,213	2.3%
1997-98	1,210,804	891,245	944,175	712,047	3,758,271	1.7%
1998-99	1,227,343	901,404	954,700	726,895	3,810,342	1.4%
1999-00	1,236,618	915,189	966,797	737,088	3,855,692	1.2%
2000-01	1,249,519	934,197	976,226	756,488	3,916,430	1.6%
2001-02	1,265,391	953,774	993,954	780,343	3,993,462	2.0%
2002-03	1,287,167	966,841	1,017,094	805,022	4,076,124	2.1%
Change since 1992-93	152,784	121,070	181,952	191,746	647,552	18.9%
Percent of Total Increase	24%	19%	28%	30%	100%	

Academic Year						Total*
	American Indian	Asian	Black	Hispanic	Caucasian	
1992-93	8,349	76,821	506,331	1,237,485	1,712,783	3,541,769
1993-94	8,150	80,511	515,475	1,282,849	1,721,277	3,608,262
1994-95	8,803	83,416	526,757	1,325,768	1,732,427	3,677,171
1995-96	9,566	86,706	536,386	1,375,896	1,739,613	3,748,167
1996-97	9,927	91,051	549,667	1,435,521	1,750,930	3,837,096
1997-98	10,578	95,136	560,405	1,478,984	1,755,385	3,900,488
1998-99	11,925	100,143	568,757	1,526,713	1,746,896	3,954,434
1999-00	11,293	103,686	576,977	1,582,538	1,727,733	4,002,227
2000-01	12,120	108,605	586,712	1,650,560	1,713,436	4,071,433
2001-02	12,777	116,243	598,359	1,735,916	1,701,806	4,165,101
2002-03	13,168	122,503	609,442	1,820,010	1,694,741	4,259,864
Change since 1992-93	4,819	45,682	103,111	582,525	(18,042)	718,095
Percent of Total Increase	1%	6%	14%	81%	(3)%	100%

* Ethnic counts include children in Early Education and Pre-Kindergarten programs not shown.

Percentages may not sum exactly due to rounding.

Source: Texas Education Agency.

State of Texas Higher Education Enrollment, Last Ten Years

Institutions	Fall 1994	Fall 1995	Fall 1996	Fall 1997	Fall 1998	Fall 1999	Fall 2000	Fall 2001	Fall 2002	Fall 2003*	Percentage Change 1994 to 2003
Public Universities	406,466	400,633	397,293	396,265	398,258	407,074	414,626	430,770	456,209	473,511	16%
Independent Senior Colleges and Universities	92,029	95,276	96,685	98,873	102,489	104,179	107,681	111,259	113,722	117,484	28%
Public Community and State Colleges	400,323	401,049	407,556	413,631	412,684	426,519	438,730	468,201	509,201	529,843	32%
Public Technical Institutes	7,732	7,557	8,008	8,468	8,724	8,804	9,268	10,112	10,721	10,724	39%
Independent Junior Colleges	619	668	751	767	673	609	634	670	680	763	23%
Public Medical, Dental and Health-Related Units	14,421	14,629	15,378	15,333	15,374	12,410	12,607	13,100	13,804	14,435	0%
Independent Medical, Dental and Health-Related Units	1,607	1,615	1,156	1,174	1,162	1,186	1,199	1,206	1,263	1,287	(20)%
Total Per Year	<u>923,197</u>	<u>921,427</u>	<u>926,827</u>	<u>934,511</u>	<u>939,364</u>	<u>960,781</u>	<u>984,745</u>	<u>1,035,318</u>	<u>1,105,600</u>	<u>1,148,047</u>	<u>24%</u>


* 2003 numbers are based on preliminary data.

Source: Texas Higher Education Coordinating Board.

Number of Higher Education Institutions – 2003

Public Universities	35
Independent Senior Colleges & Universities	41
Public Community and State Colleges	53
Public Technical Institutes	4
Independent Junior Colleges	2
Public Medical Schools & Health Science Centers	9
Independent Medical & Dental Schools	<u>1</u>
Total Institutions for 2003	<u>145</u>

Source: Texas Higher Education Coordinating Board



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